

Pentagon Starts '85 Planning

Emphasis on Gulf, Central America

By Richard Halloran

WASHINGTON — Paul Thayer, deputy secretary of defense, has ordered the U.S. armed forces to plan for expanded operations in Central America and has placed new emphasis on projecting American military power to the Gulf, according to Defense Department memorandums.

Mr. Thayer has ended a long summer of debate inside the Defense Department with the first critical decisions in a long process of shaping the 1985 military budget.

The budget will be refined by the White House during the fall and in January will be presented to Congress, where it will be subject to vigorous debate and certain revision.

Mr. Thayer's decisions appeared to reflect President Ronald Reagan's pledge to "rearm America" and to project U.S. military power abroad while recognizing the political reality of growing resistance in Congress to ever-higher military spending.

All of the military services were instructed to add funds for operations in the Southern Command, meaning Central and South America, and to take part in a study to be led by the Joint Chiefs of Staff on "force structure and basing requirements."

For the Gulf area, the army and air forces were instructed to allocate funds for additional troops and aircraft for staging and aircraft bases in Morocco, Oman and on Diego Garcia, the tiny British island in the Indian Ocean.

Acting on behalf of Defense Secretary Caspar W. Weinberger, Mr. Thayer instructed the military services to expect the possibility of a congressional imposed limit on U.S. troops in Western Europe and to be ready to implement it. It was understood, however, that such a limit was more to be anticipated than actually expected.

The memorandums instructed the forces to increase mobility, with the navy and the air force to emphasize defense of sea lanes.

Mr. Thayer ordered the services to continue improving their ability to combat guerrilla, insurgencies and terrorism.

The deputy secretary approved a navy request to continue production of F-14 Tomcat fighters but ordered a halt in output of the A-6 Intruder attack bomber. Both are made by Grumman Aerospace in Bethpage, New York.

In personnel, the army was ordered to speed up its planned growth by 3,600, the air force to slow down by 20,000 and the navy to stay on course.

By 1989, the armed forces are to have 2,270,600 people, as against 2,113,400 today.

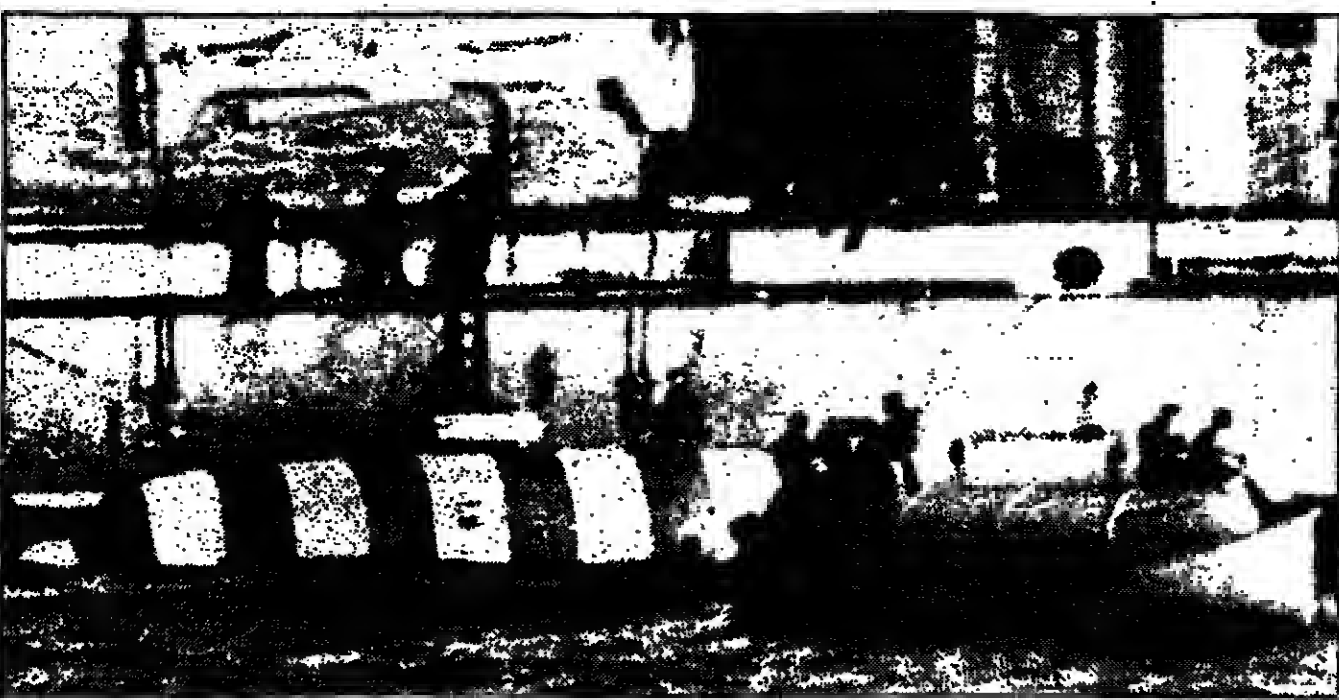
Mr. Thayer's program decision memorandums were drawn up Aug. 22 after the Defense Resources Board, the Pentagon's top executive committee, had debated program objective memorandums, requests, submitted by each military service in the spring.

While the decision memorandums, officially secret, focus on the fiscal year 1985, which begins Oct. 1, 1984, they also set projections for the following four years, through 1989.

Mr. Thayer instructed the services to delay or reduce a wide range of programs to stay within budget limitations likely to be imposed by Congress.

He also warned the services, particularly the navy, to be realistic about prices of weapons and about inflation.

The deputy secretary further ordered the services to stop arguing (Continued on Page 4, Col. 6)



SEARCH CONTINUES — A striped mini-submarine is unloaded from the Soviet salvage ship Georgi Kozmin as part of the search for wreckage of the Korean airliner shot down Sept. 1 by Soviet jets near Sakhalin Island. This picture, taken Sunday, was released Tuesday by Japan's Maritime Safety Agency. Meanwhile, both Soviet and American search crews are thought to have heard the beeps emitted by the plane's in-flight recorder. Story, Page 3.

U.S. Panel Opposes Sale of Equipment to Russia

By Kenneth B. Noble

WASHINGTON — An inter-agency advisory group on export policy, in an apparent reaction to the shooting down of a South Korean airliner, has recommended that the Reagan administration deny an export license sought by a Hughes Tool Co. subsidiary to sell \$40 million worth of oil exploration equipment to the Soviet Union.

The recommendation appeared to be a reversal of recent moves by the administration to ease controls on the export of oil and gas equipment to the Soviet Union. Last month, the Commerce Department announced it had removed from export controls equipment made by an American company so that it could be sold more easily to the Soviet Union.

However, the advisory group, which met Sept. 13, urged that the decision to decontrol pipelines not be extended to other pipeline and refining equipment.

The group also recommended that 17 oil and gas exploration products be placed under national security export controls, instead of the foreign policy controls that now apply. This would give the Defense Department a veto over sales of such equipment to the Soviet Union. Foreign policy controls must be renewed each year; national security controls apply indefinitely.

"It's a 180-degree turn from the decision to decontrol pipelines," a senior trade official said. "We are negotiating with the allies in this area, and the additional steps were recommended to impress upon them that we are determined and absolutely serious. Some in the advisory group categorized this as an additional sanction on the Soviets for the Korean Airlines shooting."

These new recommendations by the advisory committee will go into effect unless a member of the cabinet requests a review of the decision, which appears possible.

According to one trade official, "It would not be surprising if Shultz and Baldrige object, since they were the prime advocates of eliminating controls over pipeline equipment." The official was referring to Secretary of State George P. Shultz and Commerce Secretary Malcolm Baldrige.

Lawrence J. Brady, an assistant secretary of Commerce and a strong opponent of trade with the Soviet Union, who heads the inter-agency group, acknowledged that the group's decisions "can be appealed up to the secretarial level."

An official sympathetic to the committee's recommendation, who asked not to be identified, said: "I don't see any way possible that the recommendations will be overturned, in view of the president's statements regarding the Korean flight. There's a real importance to submersible drilling pumps; this approaches the strategic area."

The advisory group is composed of officials of the Commerce, Energy, State and Defense Departments, the National Security Council and the Central Intelligence Agency.

Frank Potter, a spokesman for Hughes Tool, said of the application of Controls-Hughes, a Claremont, Oklahoma, division of Hughes Tool: "Frankly, they didn't expect to get the application approved at this time because of all the rhetoric going on between the Russians and the United States. What they got caught up in is world politics."

Export controls on oil and gas equipment were initially imposed by President Jimmy Carter in July 1978 in response to the jailing of two Soviet dissidents. These restrictions were tightened in January 1980 after the Soviet intervention in Afghanistan.

The latest situation has touched off a new conflict within the Reagan administration over trade policy. The State Department initially recommended approving the application by Hughes, but Commerce Department officials, led by Mr. Brady, are urging tighter administration controls.

In another development, William A. Root, who was director of the State Department's office of East-West trade, resigned last Friday, apparently to protest moves within the administration to take a tougher stance on the sale of exploration equipment to the Soviet Union.

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U.S., Saudis Pressing For Truce in Lebanon

Compiled by Our Staff From Dispatches

BEIRUT — U.S. and Saudi Arabian envoys stepped up their efforts to arrange a cease-fire in Lebanon on Tuesday, but late Tuesday night, fierce battles broke out in the suburbs and in the hills above the capital. And U.S. Navy warships for the second straight day shelled Syrian-backed rebels in the hills.

Earlier in the day, U.S. marines went to the war front in the Chuf mountains at the direction of the commander of the U.S. peacekeeping forces, but their role was limited to observing, a Marine spokesman said.

The state-run radio said Tuesday night that there was intense and indiscriminate shelling of the southeastern suburbs, including the areas around the presidential palace and the Lebanese Defense Ministry, both regular targets of rebel artillery.

A Lebanese Army statement read on the radio said the anti-government forces were attacking army positions around Kaifum, a village overlooking the capital.

Earlier statements said the insurgents, mainly Druze Moslem and leftist militiamen assisted by Palestinian irregulars, had made similar assaults on government troops at the key town of Souk el-Gharb.

The U.S. special Middle East envoys, Robert C. McFarlane and Richard Fairbanks, flew to Cyprus with the Lebanese national security adviser, Wadie Haddad, on Tuesday as part of the growing efforts to arrange a cease-fire, according to government sources.

They met Saudi mediators in Cyprus and returned to Beirut with a Lebanese businessman, Rafi al-Harari, who has played a prominent role in the negotiations. They met with President Amin Gemayel, Beirut Radio said.

In Rome, the Italian defense minister, Giovanni Spadolini, said General Franco Angioni, commander of Italy's peacekeeping unit in Lebanon, had told him by radio that there was a possibility of a truce.

The chief Saudi Arabian mediator, Prince Bandar bin Sultan, was in Damascus pursuing his cease-fire efforts with the Syrian foreign minister, Abdel-Halim Khaddam, and the Druze leader, Walid Jumblatt.

Senior Lebanese officials in Beirut told Reuters that Syria had softened its conditions for a cease-fire, agreeing to allow the Lebanese Army to hold its present mountain positions after an end to the fighting.

Syria and its Lebanese allies had previously refused to stop fighting until the army withdrew from all the mountain areas around Beirut. According to the agreement under consideration, the Saudis and Syrians would act as observers at a roundtable conference between the Lebanese government and opposition factions, the officials said.

This would be preceded by a cease-fire and the formation of a neutral committee to supervise it, made up either from the United Nations truce observation organization or a team from the four-nation peacekeeping force, they said.

On Monday, two U.S. Navy ships shelled rebel militias threatening to capture Souk el-Gharb from the Lebanese Army. Tuesday, five warships from the 12-strong U.S. fleet lying off Beirut steamed

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(Continued on Page 2, Col. 2)

Reagan, Congress Reach Accord on War Powers

By Lou Cannon

Washington Post Service

WASHINGTON — President Ronald Reagan and congressional leaders agreed Tuesday on a compromise that would allow U.S. Marines to remain in Lebanon for another year and a half while sidestepping a constitutional confrontation over the president's powers to make war.

The compromise, announced separately by Mr. Reagan and House Speaker Thomas P. O'Neill, a Massachusetts Democrat, is a congressional resolution which declares that the president should have invoked the 1973 War Powers Resolution after two U.S. Marines were killed in Lebanon on Aug. 29.

If Mr. Reagan had invoked the war powers act, as many in Congress had been urging him to do, he would have had to withdraw American Marines within 90 days unless he received specific authorization from Congress for them to stay.

The compromise agreement, crafted by White House negotiators and congressional leaders, declares that it is in the national interest for the Marines to stay in Lebanon as part of the multinational peacekeeping force, which includes British, French and Italian troops.

As part of the agreement, Mr. Reagan expressed "substantial reservations" to the congressional assertion that he should have invoked the War Powers Resolution. But he said he would sign it if it remained unchanged.

Congressional leaders of both parties expressed confidence they could defeat what are expected to be scattered challenges to the agreement from rank-and-file Democrats.

Mr. Reagan continues to maintain, as other presidents have, that the War Powers Resolution violates executive prerogatives. While Mr. O'Neill maintained that the resolution requires Mr. Reagan to "acknowledge" the resolution, there was general agreement both at the White House and Capitol Hill that it puts off the constitutional question to another day.

Both sides indicated that they wanted to avoid a confrontation at a time when U.S. Marines are exposed to hostile fire in Lebanon.

Congressional leaders have said from the outset that they generally support Mr. Reagan's commitment of Marines to Lebanon as part of a peacekeeping force.

The administration regards a bipartisan resolution as helpful in its effort to convince Lebanese factions and Syria to agree to a cease-fire and an eventual negotiated settlement in Lebanon.

The resolution permits continued use of offshore artillery and tactical air support if necessary to protect the Marines stationed in Lebanon. It also limits the Marines' strength to about the current level of 1,200.

The Senate minority leader, Robert C. Byrd, a West Virginia Democrat, expressed reservations about the agreement but did not say he would oppose it. Republicans hold a majority in the Senate and could pass the resolution over his opposition, but the White House expects support for the compromise from a majority of Democrats in both houses.

■ O'Neill Backs Extension
Mr. O'Neill said he was persuaded the 18-month extension of the Marines' mandate was necessary, rather than a shorter period as some congressmen had suggested, the United Press International reported from Washington.

■ The Syrians would just sit it out if a shorter period were decided on, he said.

■ A one-year extension would have raised the issue in the middle of next year's presidential campaign.

■ But Senator Byrd said he was troubled by the time period for precisely that reason. He said he does not think Americans want Marines "in the line of fire, spilling blood just to get past the elections."

■ In recent days, the role of the U.S. forces has escalated from one of simply protecting American troops and other targets. This escalation resulted in increased congressional pressure on the president to invoke the War Powers Resolution.

Reagan Allows Cutback Of Pershing-2 in Talks

Los Angeles Times Service

WASHINGTON — President Ronald Reagan has given Paul H. Nitze, the U.S. negotiator at the Geneva talks on medium-range missiles, flexibility to negotiate a reduction in the number of Pershing-2 missiles to be deployed in Western Europe.

Plans now call for deploying 108 Pershing-2s, which the Soviet Union considers particularly threatening, and 464 ground-launched cruise missiles over the next four years.

In a letter from Mr. Reagan to each NATO government last week, and in briefings to the alliance in Brussels on Monday, the administration also said it was willing to negotiate on two points which had been previously disclosed:

■ Ceilings on numbers of land-based medium-range bombers in Europe that can carry nuclear weapons. The Soviet Union has long wanted these so-called "forward-based" U.S. aircraft covered in any European arms balance.

■ Easing the U.S. demand for worldwide limits on the intermediate-range missiles. The administration will continue to insist on equal levels of Soviet and American missiles in Europe. In Asia, however, where Moscow argues it needs additional missiles to balance Chinese weapons, the United States would reserve the "right" to match any Soviet deployments but would

state that it had no plans to actually do so.

Portions of Mr. Reagan's letter were made public last week, but the three points of increased U.S. flexibility were outlined in sections of the letter that have not been released.

At the same time, the administration has decided it will make no concession on a key Soviet demand — that 162 missiles deployed by the British and French be counted as part of the U.S. European arsenal, administration sources said.

The United States also will not consider postponing deployment of the first of its 572 Pershing-2 and cruise missiles in Europe, due in December, unless agreement is reached before then, according to the sources.

The Soviet Union already has more than 500 intermediate-range missiles deployed in Europe, and talks have been under way in Geneva for almost two years in an effort to reach an agreement that would limit the missiles on both sides.

(Sources in the North Atlantic Treaty Organization told The Washington Post that alliance members have agreed in principle to the new negotiating stance, clearing the way for its announcement from Washington.)

(The sources confirmed that the U.S. assistant secretary of state, Richard R. Burt, had flown to

(Continued on Page 2, Col. 5)

Marcos Foes Cite Witnesses In Shooting

Compiled by Our Staff From Dispatches

MANILA — Philippine opposition parties said Tuesday that several witnesses were willing to testify they saw a man in uniform assassinate the opposition leader, Benigno S. Aquino, refuting the government's claim he was shot by a criminal "gun for hire."

In other developments Tuesday: ■ Thousands of office workers calling for President Ferdinand E. Marcos to resign, broke up a pro-government rally with a barrage of eggs, rocks, water balloons, firecrackers and coins.

■ President Marcos said in an interview with The Washington Post that any cancellation of President Ronald Reagan's scheduled trip to the Philippines in November would raise new political problems for operations here of two key U.S. military bases.

■ Government troops were deployed around the Philippines' largest oil refinery at Bataan, 35 miles (56 kilometers) west of Manila, after intelligence reports said leftist rebels would try to blow it up Wednesday, Manila's Bulletin Today newspaper said.

Intelligence sources said rebels also would attack other government installations and public utilities on Wednesday, which is the 11th anniversary of President Marcos's declaration of martial law.

The agreement is on the meaning of justification, the doctrine that describes how sinful humanity can be considered righteous in the sight of God and obtain salvation.

Historically, Catholics emphasized the role of good works and sacraments as aids to salvation. Followers of Martin Luther stressed faith alone.

Now, in a statement released Monday by 20 Lutheran and Catholic scholars, the two groups have chosen to emphasize their common view that only God's grace can bring salvation and that the old differences of emphasis need not be a source of division.

"We can and do confess together that our hope for salvation rests entirely upon God's merciful action in Christ," said a statement by participants in dialogues sponsored since 1965 by the U.S. Catholic bishops and major Lutheran churches in this country.

A 21,000-word study on the doctrine of justification will be released later this fall. The 20 members of the team taking part in the dialogues issued the brief state-



Philippine demonstrators burned pro-government banners Tuesday in the financial district outside Manila after routing a rally by backers of President Ferdinand E. Marcos.

U.S. Catholics, Lutherans Conciliate

Theologians Near Accord on Dogma of Justification

By Charles Austin

New York Times Service

NEW YORK — American Roman Catholic and Lutheran theologians are preparing to announce agreement on the main issue that divided Lutherans and Catholics nearly 500 years ago.

The agreement is on the meaning of justification, the doctrine that describes how sinful humanity can be considered righteous in the sight of God and obtain salvation.

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ment Monday after completing their report in Milwaukee Sunday.

Although scholars on both sides have some reservations about the implications of the study, they called it a major theological breakthrough in Protestant-Catholic relations.

In the 16th century, Luther, an Augustinian monk and Bible scholar, concluded that the saving grace of God came solely through faith and could not be earned by meritorious deeds or through sacraments and the mediation of the church.

The church of Luther's time had developed an elaborate system of merits that were said to free the believer from the punishment he had earned because of sinfulness. The emphasis by Luther and the other reformers that salvation was a free gift of God challenged this system, which then included the sale by the church of indulgences that were said to remit divine punishment for sins.

Luther was condemned by the Vatican and eventually excommunicated after he defied the church and continued to proclaim his views on justification and related matters of doctrine and church government. He believed in the sufficient authority of the Scriptures without need for church interpretation, the individual Christian's responsibility for matters of conscience, the form of communion that included both bread and

wine for the laity, and the marriage of priests.

The statement Monday said Lutherans and Catholics should be able to "get behind stereotypes and historical caricatures" of each other's teachings on how a believer is to be deemed worthy of salvation.

Lutherans frequently accuse Catholics of "works righteousness," a phrase used to mean seeking salvation by good works.

Catholics, on the other hand, have felt that the Lutheran emphasis on salvation "by faith alone" has been inadequate because, in the Catholic view, it fails to encourage believers to be better people because of their faith.

"The problem of language and theological method has been very acute in this dialogue," said John Hotchkiss, head of ecumenical relations for the Catholic bishops. Because Catholics have not placed as much emphasis on this doctrine as Lutherans have, it was unusually difficult to draft a theological paper that could be agreed upon, he said.

The report is being submitted to the authorities of both churches for analysis. Although it is not likely to contain suggestions on how agreement on justification might alter relations, the document is expected to carry authority on its own, because the theologians drafting it were appointed by their churches.

INSIDE

■ President Reagan names a longtime friend to be ambassador to Britain. Page 3.

■ A Chinese newspaper accuses Britain of colonialism, as envoys gather in Beijing for talks on Hong Kong. Page 4.

■ Costa Rica is cracking down on anti-Sandinist rebels operating on its territory. Page 5.

■ CGE's acquisition of Thomson-Brandt's telecommunications business receives French government approval. Page 13.

■ Economic recovery in the United States and other countries is being stifled by capital shortages caused by high government debt. Page 13.

A Royal Appearance in the Dutch Parliament

Queen Beatrix of the Netherlands was accompanied Tuesday by her husband, Prince Claus, during the opening of parliament. The prince, who has been hospitalized in Switzerland and the Netherlands for treatment of depression, had not appeared in public for nearly a year. Page 4.

U.S. Seen Defender of Lebanese Army

By Thomas L. Friedman
New York Times Service

BEIRUT — American involvement in the Lebanese crisis took a significant new turn Monday, when the U.S. Navy began firing its guns

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not to defend American soldiers under attack but to support the operations of a Lebanese Army unit.

The naval bombardment by two ships in support of Lebanese soldiers trying to hold onto their positions in the mountainous village of Souk el-Gharb marked the first time U.S. forces have acted under the new rules of engagement given

them by President Ronald Reagan last week.

The president granted the Marines in Beirut the right to order air and sea strikes to defend the four-nation peacekeeping force and Lebanese Army troops. In elaborating on these rules of engagement, the White House spokesman, Larry M. Speakes, said at the time, "If the Marines are in danger because the Lebanese Army is in difficulty, the Marines are authorized to defend themselves."

As far as the Marines' being in any direct danger as a result of Monday's fighting, the Marine spokesman, Major Robert Jordan,

stated unequivocally, "There was no direct threat."

"We did not have any artillery or rockets that landed close to the Marine positions that posed a threat to themselves," he said. A statement issued by the 6th Fleet commander, Vice Admiral Edward H. Martin, indicated that the naval bombardment was necessary because the Marines perceived a potential threat to themselves in the difficulties being encountered by the Lebanese troops trying to defend Souk el-Gharb.

The statement said that successful Lebanese defense of the Souk el-Gharb area "is vital to the safety of U.S. personnel."

To be sure, Souk el-Gharb is one of the villages situated on the ridge overlooking the southern approaches to Beirut, including the airport and the compound where the 1,200-man Marine peacekeeping contingent is based. From Souk el-Gharb it is possible to fire artillery directly at targets in Beirut instead of lobbing shells in an arc over the mountains.

However, the Marine base can be, and has been, hit from anti-government militia positions miles behind Souk el-Gharb, which is 9 miles (14.5 kilometers) from Beirut. In fact, the base has been hit from much closer range. Almost daily, the Marine compound has been fired on by snipers in surrounding neighborhoods.

What appears to be the real stake at Souk el-Gharb is neither the direct nor the indirect safety of the Marines; rather it is the prestige and credibility of the Lebanese Army.

Souk el-Gharb is the largest and most important town the army was able to seize control of in the Chuf Mountains after the Israeli Army withdrew from the region Sept. 4. Its defense has been an enormous confidence builder. Western military sources said. If the army should be driven out, it would be a severe blow to its credibility and confidence as well as to that of the entire government of President Amin Gemayel.

With the Americans having committed themselves to the defense of the Lebanese Army in Souk el-Gharb, the question being asked by diplomats here is how far they will now go. On Monday, naval guns appear to have been sufficient to help the Lebanese troops out of their difficulty. But what if next time the only way to do the job is to use ground troops or air strikes that might put the United States in direct confrontation with Syrian troops, planes or anti-aircraft batteries?

In the end, securing the safety of the Marines could provide the Reagan administration with the basis for justifying a broad range of military actions the next time the Lebanese Army comes under attack. And there is almost certain to be a next time. The Lebanese conflict has been transformed in recent weeks from an internal dispute into an international crisis involving an apparent attempt by the Syrians and Palestinian guerrillas to reassert their influence over the Lebanese government and possibly even return to Beirut.

With the Israelis sitting on the sidelines and the Christian Phalangist militia severely weakened by the latest fighting, the only force capable of standing up to the Syrians and the Palestinians is the fragile and untested Lebanese Army, backed up by the U.S. Navy and the Marine contingent.

Given the weakness of all the institutions of the Lebanese state, it may soon become apparent that the only force left to sustain the government and army of Mr. Gemayel will be the American commitment to their survival. Western diplomats and Arab analysts here believe.



A U.S. colonel talking with a Lebanese Army officer in the town of Souk el-Gharb after an American team was caught in shelling. The team was said to be acting as observers.

U.S., Saudi Envoys Press For Lebanese Cease-Fire

(Continued from Page 1)

close to the city but did not open fire.

Syria had yet to make a public response to the naval shelling. But Mr. Jumblat said in Damascus that the bombardment had prevented his forces from occupying Souk el-Gharb.

Military sources in Beirut said Mr. Jumblat's fighters, widely reported to include Palestinian guerrillas, gained a foothold in the town Monday, but they added that the army had regained control.

Journalists saw Marine peacekeeping troops and also U.S. Army Green Beret military trainers in Souk el-Gharb on Tuesday. The army, as distinct from the peacekeepers, is on contract to provide training to Lebanese troops.

The army's Office of Military Cooperation had no immediate comment, but the Marine peacekeeping force said four to six marines were on a fact-finding mission.

"The commanding officer from time to time has the need to send observers so they can gather information for him to make decisions. That's what they were doing in Souk el-Gharb," a spokesman said.

He said there has been a "continuing need" to gather "defensive" information, but declined to point out other fact-finding missions.

Town Is Called Vital

Bernard Gwertzman of The New York Times reported from Washington: Senior administration officials said the defense of Souk el-Gharb was vital to U.S. interests because its fall could undermine the stability of the government of President Gemayel.

Publicly, spokesmen in Washington and in Beirut have justified the broadened U.S. role as necessary for the safety of marines and diplomats.

Larry M. Speakes, the chief White House spokesman, said, "If hostile forces should take the high ground at Souk el-Gharb, they would pose a threat to the safety of our international contingent."

But privately, officials said the defense of the outpost was also crucial because its fall could demoralize the U.S.-trained Lebanese Army and perhaps lead to the collapse of Mr. Gemayel's U.S.-backed government.

This seeming commitment to use force to keep the Gemayel government alive apparently goes beyond the stated objectives of the U.S. forces in the region, but this has not been said publicly out of concern for possible repercussions in the United States and in the Middle East.

Officials suggested that further military steps might be taken if Souk el-Gharb fell or seemed to be on the verge of collapse. But they said no decisions had been made to go beyond the announcement last week of limited naval and air help.

WORLD BRIEFS

Herzog Likely to Pick Shamir Today

JERUSALEM (AP) — Foreign Minister Yitzhak Shamir secured majority support in the Knesset on Tuesday for his bid to succeed Menachem Begin, and Israel Radio said President Chaim Herzog would appoint him prime minister-designate Wednesday.

Mr. Herzog announced no decision as he ended talks with the political parties on Mr. Begin's successor, but the radio said that "in light of the consultations" with some of the factions, he would appoint Mr. Shamir to form the new government.

The Agudath Israel party was the fourth member of the coalition to tell Mr. Herzog that it supported Mr. Shamir. The parties, together with Mr. Shamir's Likud bloc, hold a majority of 62 seats in the 120-member Knesset, or parliament. Some parties have told Mr. Herzog that they would prefer a national unity government linking the opposition Labor Party and Likud under Mr. Shamir's leadership, but Labor appears unenthusiastic.

Afghan Rebels Destroy Planes, Tanks

ISLAMABAD, Pakistan (LAT) — Anti-government insurgents destroyed two Soviet-built planes, three helicopters, five tanks and dozens of military trucks in recent raids in Afghanistan, Western diplomats said Tuesday.

The diplomats reported heavy fighting between the guerrillas and the Soviet and Afghan forces backing the regime of Babrak Karmal. While the capital of Kabul was quiet, they said, many travelers arriving for a Moslem festival brought stories of insurgent successes in the countryside.

In addition, a government decision to recall into the army men who had already completed a tour of military duty since the undeclared war began in 1979 had created widespread resentment, the sources said.

British Liberal Leader Keeps Control

HARROGATE, England (Reuters) — The leader of Britain's minority Liberal Party, David Steel, won a behind-the-scenes battle Tuesday to retain his authority over the party's platform.

In a closed session at the start of the annual Liberal assembly, the party rejected moves by members of its youth wing to amend its 1872 constitution and remove the leader's final authority over the content of the Liberal election manifesto. Mr. Steel was not present.

Mr. Steel, 45, is popular with voters but criticized by some party activists for what they call a remote and autocratic style of leadership. Leader of the Liberals since 1976, he had hinted that he might resign if his authority were diminished.

Army Disperses Pakistan Protesters

KARACHI, Pakistan (AP) — Army units restrained demonstrators from setting fire to Pakistan's biggest oil well Tuesday, according to accounts.

About 5,000 demonstrators had burnt two government buildings and a gasoline station, the witnesses said, when they were dispersed by army units and local police as they headed for the U.S.-made oil well in Badin, 150 miles (240 kilometers) east of Karachi. About 150 arrests were made, the sources said.

In Hala, about 130 miles (208 kilometers) northeast of Karachi, several thousand armed demonstrators Tuesday blocked the highway linking Lahore with Karachi after more than 10 hours, sources there said. Tuesday was the 38th day of civil disobedience mounted by opponents of the martial law regime of President Mohammad Zia ul-Haq.

Freeze Supporters Seek Senate Vote

WASHINGTON (AP) — Supporters of a nuclear weapons freeze, giving up hope of winning the endorsement of the Senate Foreign Relations Committee, asked the panel Tuesday to send their measure to the full Senate without a recommendation as to its fate.

Senator Charles H. Percy, an Illinois Republican, chairman of the committee and a freeze opponent, said he would support sending the measure to the floor, but he was not sure whether it would be submitted without recommendation or with a recommendation that it be defeated. The freeze resolution was passed by the House on May 4 but is given little chance of winning approval in the Senate. It calls for the United States and the Soviet Union to negotiate a mutual and verifiable freeze of nuclear weaponry at present levels.

Belgian Strikers Toughen Their Stand

BRUSSELS (AP) — Leaders of Belgium's six-day-old civil service strike toughened their stance against a government austerity drive Tuesday, urging workers in private industry to join the walkout.

Interior Minister Charles-Ferdinand Nothomb was to meet Tuesday with representatives of hundreds of thousands of striking public servants. Afterward, the representatives were to decide whether to go back to work Wednesday or continue strikes that have paralyzed or severely curtailed public services for almost a week.

The strike was called to protest plans to cut the government's payroll by 1.9 percent, or 8.4 billion francs (\$156 million), next year. The center-right government has said the cuts in wages and benefits are the same as those for the private sector.

For the Record

ROME (AP) — The Chamber of Deputies Tuesday stripped Toni Negri, a Marxist professor allegedly linked with the Red Brigades, of his parliamentary immunity so that he can be tried on terrorist charges.

CASTEAU, Belgium (AP) — General Leopold Chalupe, 56, of the West German Army has been appointed commander in chief of allied forces in Central Europe, the supreme allied command announced Tuesday.

NICOSIA (AP) — Foreign Minister Nikos A. Rolandis resigned Tuesday in a surprise move. He gave no reason for his decision, which was announced only hours after Prime Minister Indira Gandhi of India arrived for an official visit.



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BRIEFS

ick Shamir Told
Minister Yitzhak Shamir was told Tuesday for his bid to become Prime Minister of Israel. Shamir, 62, said he would appoint Mr. Shimon Peres as his deputy.

stroy Planes, Tanks
Anti-government insurgents in Afghanistan destroyed five tanks and 100 planes, Western diplomats said.

ighting between the guerrillas
The regime of Bakr al-Sayid in Iraq said many guerrillas were killed in the fighting between the guerrillas and the army since the army's military duty since the underground movement, the sources said.

nder Keeps Control
The leader of Britain's Conservative Party, Margaret Thatcher, said she would keep control of the party's platform.

Pakistan Protest
Army units restrained demonstrators in Islamabad Tuesday, according to a report from the United Nations.

ers Seek Senate
Supporters of a candidate sought the endorsement of the Senate in the primary Tuesday to end the uncertainty as to the fate of the candidate.

s Toughen Their
The government in Belgium said it would toughen its laws on the use of force by the police.

er Minister Nails A Russian
He gave a lecture for his daughter in France.



LADIES DAY — At a ceremony in the White House Rose Garden honoring women in government, President Ronald Reagan shakes hands simultaneously with Nancy Harvey Steorts, left, chairwoman of the Consumer Product Safety Commission, and Margaret Heckler, secretary of health and human services. Applauding is Jeanne Holm, undersecretary of the Air Force, who is the highest-ranking woman in the Defense Department.

Political Action Committees Change The Focus of Gifts to House Members

By Kenneth B. Noble
New York Times Service
WASHINGTON — The flow of money from political action committees to members of the House of Representatives has focused recently on members of two panels that deal with the merchant marine and public works, according to reports filed with the Federal Election Commission.

An analysis of reports for the first six months of this year indicates that the median amount received from political action groups by members of the two committees was higher than that for any other House panel.

The two committees displaced the Veterans Committee, which ranked first in 1981-82, and the Ways and Means Committee,

Businessman Is Named As U.S. Envoy to Britain

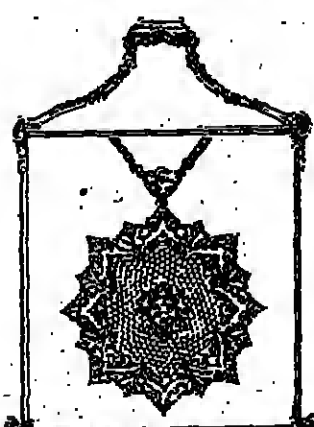
The Associated Press
WASHINGTON — President Ronald Reagan on Tuesday named Charles H. Price 2d, a longtime personal friend, to succeed John J. Louis Jr. as ambassador to Britain.

Mr. Price, 52, a business executive, has been ambassador to Belgium since 1981. Before that, he was with the Price Chandy Co. for about 25 years. He also served as president of chairman of the board of American Mortgage Co., Price Bank Building Corp., American Bancorporation, Inc., Linwood Securities Co., and Twenty-one Central United, Inc. He also was formerly chairman of the board of the American Bank and Trust Co. of Kansas City, Missouri.

The current ambassador in London, Mr. Louis, made it clear he was leaving his post against his will. He said last week that he was "disappointed and saddened." News-papers reported said he was dismissed for "lacking impact" in the job.

At the same time, Mr. Reagan also announced his intention to make these other nominations, all subject to Senate confirmation:

• Geoffrey Swabe, 72, a former business executive, to be ambassador to Belgium. Since 1981, Mr.



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U.S. Searchers Said to Hear Jet's Beep

By Michael Getler
Washington Post Service
WASHINGTON — American crews on vessels searching the Sea of Japan for wreckage of Korean Air Lines Flight 007 have heard electronic beeps emitted by the "black box" housing the plane's in-flight data recorder, informed sources said Monday.

The sources said the strong assumption is that the Russians, who are scouring the area with dozens of ships and planes, have also heard the beeps. But neither side appeared to have found the data recorder, the sources said Monday.

The electronic beeper, of a sort carried by all airliners, is meant to help searchers find wreckage. The beeper normally operates for about 30 days. The South Korean airliner, with 269 persons aboard, was shot down Sept. 1.

The sources said they were almost certain that the wreckage containing the in-flight recorder was in international waters, rather than Soviet waters. As one official said Monday, "There is one hell of a race going on out there" to locate the beeper, and with it the black box.

[U.S. Navy sources told The Associated Press on Tuesday that the search vessel Narragansett picked up "pings" Monday from the South Korean jetliner's black box, using a trailing underwater microphone, but later lost the signal.]

American, Japanese and South Korean officials believe the in-flight recorder could contain an explanation of why the plane strayed hundreds of miles off course and into Soviet airspace before heading-seeking missiles fired from a Soviet Su-15 fighter sent it into the sea.

The recorder could also contain additional communication by the KAL pilot or crew that might indicate if they had any warning that they were in trouble.

The Soviet Union contends that the Boeing 747 was on an espionage mission to gather information about sensitive military installations and that it gave off unusual electronic signals in flight. A Soviet air marshal said in Tuesday's edition of Pravda that the timing of the flight was meant to coordinate the airliner's electronic espionage with other American intelligence-gathering craft, including a satellite.

The United States and South Korea have denied that the plane was being used for espionage. But officials in Washington have speculated in recent days that if the Russians find the wreckage, they will try to fabricate documents or tamper with the black box to substantiate their charges that the airliner was on a spy mission.

The search area is centered in the seas off the southwestern tip of the Soviet island of Sakhalin, near a smaller island called Moneron. The Japanese have reported sea depths of 600 to 900 feet (180 to 270 meters) in the region, but military officials in Washington have put them at 900 to 1,200 feet.

Sources said that both the United States and the Soviet Union have equipment in the region capable of locating the beeper and retrieving the wreckage, but that the Russians probably have an edge because they have been in the search area longer with more equipment.

The Russians have two dozen vessels in the area and have been observed lowering small submersible vehicles from salvage ships. There have been reports that they have raised at least one sizable piece of wreckage. American officials said the Soviet crews probably had retrieved something but there was no indication as of Monday that it was the crucial piece of the plane containing the black box.

American sources said there appeared to be several large pieces of wreckage strewn over a wide area.

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Envoy Spoke For Himself, Speaks Says

New York Times Service
WASHINGTON — Charles M. Lichtenstein, the U.S. deputy chief delegate to the United Nations, was not reflecting Reagan administration policy when he suggested that UN members should consider removing the organization from New York City, according to Larry M. Speakes, the chief White House spokesman.

"It was not a White House-approved statement," Mr. Speakes said Monday evening, adding that Mr. Lichtenstein's comments appeared to have been "off the cuff" and reflective of his personal views.

Another official indicated that Mr. Lichtenstein's comments had taken the administration by surprise. He said that no one at the White House had seen the full text of his statement and that "we are waiting to receive an explanation."

UN Assembly Convenes; Stormy Session Expected

Compiled by Our Staff From Dispatches
UNITED NATIONS, New York — What many delegates fear may be the most disagreeable United Nations session for many years began Tuesday with the convening of the 38th General Assembly.

Because of the South Korean airliner incident, the war in Lebanon and other conflicts, the chances of renewed East-West détente looked minimal.

A leading diplomat commented: "It's going to be a terrible General Assembly. The Americans and the Soviets are going to see everybody's actions as either for or against them."

For the first time since he became foreign minister in 1957, Andrei A. Gromyko was not leading the Soviet delegation.

He canceled plans last Saturday to come to New York to protest the refusal of the U.S. authorities to let his plane land at a civilian airport and because he said his safety was not guaranteed.

The United States denied both assertions and U.S. officials said they believed he feared embarrassment over the Soviet shooting down of a South Korean jumbo jet.

Even the opening meeting, usually more procedural than substantive, appeared likely to be marked by discord, since no consensus was reached in advance on who would preside.

It is Latin America's turn to have the presidency, but the states of the region were unable to decide between Vice President Jorge Illueca of Panama and the ambassador of the Bahamas, Davidson L. Hepburn. An election by secret ballot seemed certain.

The UN secretariat said Monday that 38 heads of state and government had said they would attend the assembly's opening session Tuesday. The number is second only to the 42 at the 1970 session, which celebrated the 25th anniversary of the UN charter.

Despite Mr. Gromyko's absence, heads of state of two Soviet-allied East European countries will attend — Pal Losonczi of Hungary and Henryk Jablonski of Poland. Also expected are two Third World leftist leaders — Lieutenant Colonel Mengistu Haile Mariam of Ethiopia and Lieutenant Colonel Daisi Bouterse of Surinam.

Prime Minister Indira Gandhi of India will report on the nonaligned summit held in New Delhi last March. Most of the heads of state and government expected at the General Assembly session took part in that summit.

President Ronald Reagan of the United States, who attended the assembly's disarmament special session in 1981, will be the first speaker in the three-week annual policy debate opening next Monday.

In a radio speech Saturday, Mr. Reagan claimed that "the non-aligned nations are looking to the United States for leadership."

The nonaligned movement comprises 101 countries that claim to have foreign policies independent from those of the Soviet Union and United States.

The movement takes a different position from the United States on many subjects in General Assembly votes, particularly regarding Israel, South Africa, South-West Africa and economic subjects.

Following the choice of a new president, the next few days will be spent approving a proposed agenda of 142 items and allocating them among the assembly and seven committees for debate and action.

The assembly agenda includes a score or more related to arms control and disarmament, and the Soviet Union is expected to campaign for support among smaller nations to curb Western rearmament plans.

The assembly is expected Friday to admit a new UN member, St. Kitts-Nevis, a Caribbean island nation that gained independence from Britain Monday. It will increase UN membership to 158 countries.

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Bomb Damages W. German Plant

The Associated Press
RUESSELSHEIM, West Germany — A bomb Tuesday destroyed a computer center at a West German plant said to be building components for transporters of new U.S. nuclear missiles, a company spokesman said.

Anti-missile groups have said that the M.A.N. plant is delivering frames for heavy trucks that are used to pull Pershing-2 missiles scheduled for deployment in West Germany in December, the company director, Hilmar Kobinger, said.

Mr. Kobinger said the plant was turning out frames for a new line of heavy trucks used by civilian companies, the West German military and the U.S. Army, but he described claims that the trucks were intended to transport the mobile missiles as conjecture. Mr. Kobinger estimated damage to equipment and other losses at 22 million deutsche marks (\$8.3 million). No one was injured.

U.K. May Sell Chile a Cruiser
United Press International
LONDON — Britain is planning to sell the HMS Antrim, a light cruiser that saw action during the Falklands conflict, to Chile for £5 million (\$7.5 million), a spokesman for the Lloyds List Register said Tuesday.

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China Reasserts Hong Kong Claims As British Envoys Arrive for Talks

BEIJING — China accused Britain Tuesday of adopting a colonialist attitude over Hong Kong and said it intended to play an active role in running the territory after it regains sovereignty in 1997.

The Communist Party newspaper People's Daily said in an article published two days before talks re-

sume on the future of the colony that China was fully entitled under international law to regain sovereignty over Hong Kong.

The article challenged British statements that Britain had a moral responsibility for the territory. It said that as the overwhelming majority of the population was Chi-

nese, "only the Chinese government is their true representative." Britain and China have held three rounds of talks since July aimed at settling the future of Hong Kong after a 99-year lease on most of the territory expires in 1997.

The content of the talks is secret, but diplomats in Beijing believe the atmosphere has become increasingly sour in recent weeks. Diplomats said Tuesday's article was a further sign that the two sides were still far apart. The article said: "[The British] are still adopting a colonialist stance, their central intention being to continue their colonialist rule in Hong Kong." It added that such an attitude went "against the tide of history."

The article reiterated that China intends to allow Hong Kong to maintain its own economic and social system after 1997. "When China talks of regaining sovereignty over Hong Kong," it said, "it means reviving the enactment of sovereignty, including reviving administrative powers, and definitely does not mean regaining only a nominal, empty sovereignty."

It said China accepted that Britain would represent the interests of the British minority in Hong Kong and that Beijing would give them "active consideration and care."

The British team at the talks includes the governor of Hong Kong, Sir Edward Youde, who arrived in Beijing in July when he said he represented the 5.2 million people of the colony.

A Chinese Foreign Ministry spokesman retorted that he could only represent the British government. Sir Edward arrived in Beijing Tuesday for the third round of the talks on Hong Kong as the colony's currency continued to fall sharply in nervous anticipation of the negotiations.

Sir Edward and the British ambassador, Sir Percy Cradock, are to meet Chinese negotiators led by Vice Foreign Minister Yao Guang Thursday and Friday.

11 Dissidents Are Charged In Warsaw

Jailed Union Leaders Accused of Subversion

United Press International

WARSAW — Eleven dissidents, including seven Solidarity members, have been charged with trying to overthrow the Communist system, the government said Tuesday.

The government spokesman, Jerzy Urban, said that four members of the banned Workers' Defense Committee, known as KOR, had been charged under a section of the penal code that allows the death penalty. He identified them as Jacek Kuron, Adam Michnik, Zbigniew Romaszewski and Henryk Wujec.

If applied, the maximum penalty would be carried out by hanging, but prison terms were considered more likely.

Mr. Urban said seven members of the outlawed Solidarity trade union had also been charged with trying to overthrow the Communist system under another section allowing five to eight years' imprisonment.

He named the seven as Andrzej Gwiazda, Marian Jurczyk, Seweryn Jaworski, Karol Modzelewski, Andrzej Ropchowski, Grzegorz Palka and Jan Rulawski.

Mr. Urban said there were no dates fixed for the trials.

Mr. Urban said of 55 people jailed for political offenses as of July 22 — the date martial law was lifted — 44 had had their sentences reviewed and halved by the courts.

He said 177 others suspected of political crimes had been detained since July 22 and were under investigation. But only 116 were still in custody.

Mr. Urban confirmed that the government would impose increases in food prices of between 30 percent and 40 percent in January 1984, as disclosed Monday by a Communist Party official.



DEATH IN ULSTER — John Truckle, 61, a former captain in the Ulster Defense Regiment, died on Tuesday outside his home in County Armagh, when a hidden bomb exploded as he started his car. No one has claimed responsibility for the bombing.

González Criticizes Those Who Want A Political Role for Spain's Military

Madrid — Prime Minister Felipe González, in a state of the nation message Tuesday, criticized people who believe the armed forces have a political role to play in Spain.

Speaking to parliament at the opening of a two-day debate on his government, Mr. González said there was no room in democratic Spain for an autonomous military power.

He said he was referring specifically to the case of a top general who was dismissed from his command last week after making unauthorized statements that included a claim that there were conditions in which a military coup could be justified.

"What concerns me most is that there are still some people who believe that the constitution allows for anyone other than parliament to control the government," Mr. González said.

"Democracy has its power perfectly defined, and no power can supplant the popular will. There can be no autonomous military power," he added.

Mr. González, who leads Spain's first leftist government since democracy was re-established in 1975, noted that "every historical change has its own pace."

The removal of Lieutenant-General Fernando Soteras Casamayor from the command of the Valladolid region in northwestern Spain provoked fears that elements in the armed forces were considering active opposition to the Socialists.

Mr. González, making only his second major address to the Congress of Deputies, which is the lower house of the Cortes, dedicated much of his speech to the economy.

He claimed success in reducing inflation from an annual rate of 15 percent to 12 percent, and in checking the rise in unemployment. He also pointed to achievements in reducing the budget deficit and improving the trade balance.

Peru Deaths Cited In Amnesty Letter

LONDON — Amnesty International, the London-based rights organization, said Tuesday that Peruvian security forces had summarily executed hundreds of Andean Indians in a major drive against insurgents this year.

In a letter to Fernando Belaúnde Terry, the president of Peru, Amnesty said that the killings had started in January in a nine-province emergency zone under military rule. It said that the killings were "perpetrated with impunity and are increasing in number."

Amnesty said the security operations were in response to hundreds of killings of peasants by the guerrilla group Sendero Luminoso (Shining Path).

He reaffirmed pledges to carry out the Socialist election promise to create 800,000 jobs.

Mr. González said his government would also carry out a pledge to hold a referendum on membership in the North Atlantic Treaty

Organization. But he said the government would not be hurried into setting a date for the vote.

He also said Spain still hoped to be admitted to the European Community, but was not willing to pay any price for membership.

A Spanish Plan to End Direct Subsidy To Catholics Angers Jews, Protestants

Madrid — Acting on the theory that all religions should be treated equally, the Spanish government is planning to end direct state subsidies to the dominant Roman Catholic Church. But the method it has chosen has raised the ire of Jews and Protestants.

Instead of simply giving an annual grant to the Catholic Church, which was the official state church until the 1978 constitution ended that status, the government wants to institute a program of "voluntary" religious contributions.

Under the proposed system, which the Catholic Church has endorsed, a fixed percentage of each taxpayer's liability would be earmarked for support of a religion. While filling out the tax return, a citizen would place an "x" next to the faith he wanted to receive it. An atheist could either leave the spaces blank or mark the sum down for "public charity."

Samuel Toledano, head of the Federation of Israelite Communities of Spain, which represents Spain's 10,000 to 12,000 Jews, said the system "interposes the most repellent agent of the state — the tax collector — between a practitioner and his faith. The second reason is special to the Jews. We reject any system that leads to the establishment of lists."

Opposition from Protestants is based on the concept that state and church should not be linked by a government-collected "religious tax." There are an estimated 300,000 Protestants among the 37.5 million Spaniards. Catholics account for about 80 percent of the population.

Pentagon to Expand Plans For Central America, Gulf

(Continued from Page 1)

about a new helicopter and to develop one that would meet their needs over all.

Mr. Thayer also underlined the need for economies and efficiencies, especially those that may be reported to the public, and asked the services to keep people in one place for longer tours to cut down on the expense of moving them.

In each case, the overall budgets of the services were changed, but little. The revisions were in programs within the budget.

Thus Mr. Thayer approved an army budget request that would rise from \$75 billion in 1983 to \$106 billion in 1989, a navy budget going from \$98 billion in 1983 to \$149 billion, and an air force budget up from \$106 billion to \$137 billion.

Over the summer, Mr. Thayer and Secretary of the Navy John F. Lehman Jr. engaged in a running battle over the size of the navy budget and the composition of the fleet. The outcome appeared to have been a compromise.

The decision to deploy a fourth aircraft carrier abroad reflected Mr. Lehman's insistence on carrier operations as the heart of the navy. The navy usually has an aircraft carrier at sea in the Pacific, in the

Mediterranean and in the Indian Ocean. Where the fourth would go was unstated.

In addition, the navy was told to "examine the possibility of developing a new attack aircraft for procurement in the mid-1990s."

The navy was instructed to "start preliminary alternative designs of a new nuclear attack submarine to insure our present acoustic superiority is maintained over the increased Soviet submarine threat projected in the 1990s."

In Mr. Thayer's memorandum on the army, that service was instructed to assign the 5th Mechanized Division, at Fort Polk, Louisiana, to a mission in the region around the Gulf.

The assignment of the 5th Division would make four army divisions available to the Rapid Deployment Force, properly known as the Central Command.

Mr. Thayer ordered the army to "plan on conversion of one active and one reserve component infantry division to the high-technology, light division concept."

He authorized the army to "accelerate procurement of combat-zone hospitals by funding 22 of them in FY (fiscal year) 1985 and the remaining 9 in FY 1986."

More than four times as many people sought treatment for genital warts in 1981 than in 1966, the center reported. Almost a million women sought treatment for genital warts in 1981. In the same year, 295,000 women saw doctors for genital herpes.

The new findings linking papilloma virus to cancer were made by Harald zur Hausen, chairman of the executive board of the German Cancer Center in Heidelberg, West Germany. In a telephone interview, Dr. zur Hausen said he has found three strains of HPV in tumors from cancer of the cervix, vulva and penis.

Virus That Causes Genital Warts Is Linked to Cancers

(Continued from Page 1)

NEW YORK — A rapidly spreading virus that causes genital warts has been found in cervical and genital cancer tumors, suggesting that the virus might be a contributing cause of cancer, a researcher said Tuesday.

The virus, known as human papilloma virus, or HPV, is a sexually transmitted organism that has been increasing among young American men and women, according to the Centers for Disease Control in Atlanta.

More than four times as many people sought treatment for genital warts in 1981 than in 1966, the center reported. Almost a million women sought treatment for genital warts in 1981. In the same year, 295,000 women saw doctors for genital herpes.

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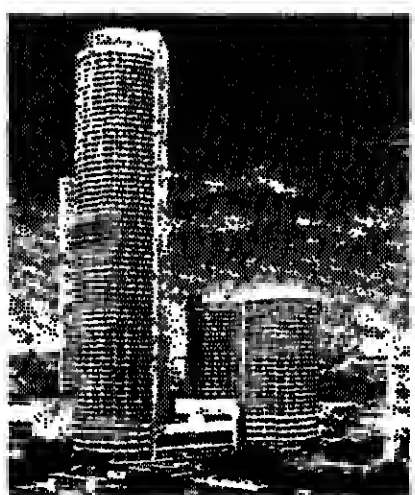
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Netherlands Announces 1984 Budget

Ditch to Cut Benefits, Reduce Corporate Tax

Compiled by the Associated Press from the Netherlands.

AMSTERDAM — The Netherlands government announced Tuesday its 1984 budget, which includes a 1.5 percent increase in the value added tax and a 1.5 percent increase in the corporate tax rate.

The government's budget proposals would cut social security benefits by 1.5 percent and also raise taxes on interest and dividends.

Prime Minister Ruud Lubbers' center-right government made its announcement in a speech from the throne. In the Netherlands, the king's speech is a tradition that dates back to the 17th century.

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There were also proposals to cut duties on cigarettes, alcohol and liquor. The government also announced a 1.5 percent increase in the value added tax and a 1.5 percent increase in the corporate tax rate.

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Passage of the proposals in parliament was expected by Tuesday.

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Mr. Albosta, who was coordinator for Mr. Reagan's debate with President Jimmy Carter, has said that he received the Carter White House materials from Mr. Casey, the campaign manager. Mr. Casey has disputed Mr. Baker's recollection. Mr. Meese was director of the Reagan transition team.

There was no immediate comment from the White House on Mr. Albosta's statement.

Mr. Albosta said investigators had interviewed 75 persons, equally divided between Reagan campaign aides and Carter White House officials, and that 30 to 35 others would be questioned. Investigators have also studied personal and official files of aides to Mr. Reagan's presidential campaign.

Mr. Albosta said he recently concluded an agreement whereby investigators would study the personal files of Mr. Meese and Robert Garriick, a retired admiral who has said he organized a network of retired military officers to monitor U.S. troop and aircraft movements for the Reagan-Bush campaign. The network was said to be looking for signs of the imminent release of the American hostages that were being held in Iran.

There was a pattern, an organized effort on someone's part, to acquire material from the Carter White House for the Reagan-Bush campaign," said Mr. Albosta, chairman of the human resources subcommittee of the Post Office and Civil Service Committee.

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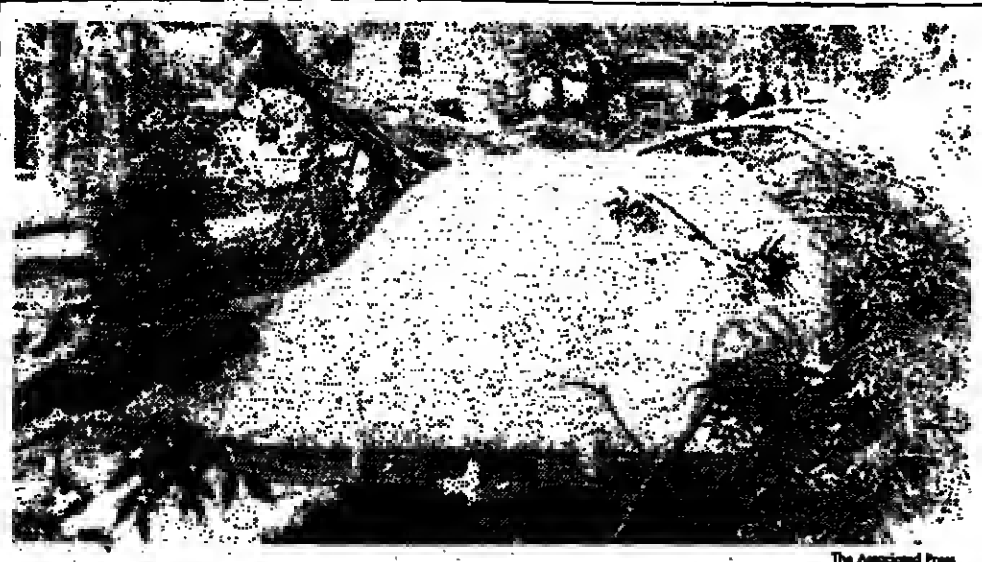
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WINTER COMES EARLY — A heavy snowstorm in Montana brought tree limbs and power lines crashing down. The storm, the first of the still young season, left up to a foot of snow in some areas. One casualty was this car parked in Helena, the state's capital.

Chief of Probe Cites 'Organized Effort' By Reagan Camp to Get Carter Papers

By Martin Tolchin
New York Times Service

WASHINGTON — Congressional investigators have uncovered evidence indicating "an organized effort" by Ronald Reagan's 1980 presidential campaign to obtain materials from the Carter White House, including the National Security Council, the chairman of the investigation said Monday.

In his first status report since the investigation began in June, Representative Donald J. Albosta, a Michigan Democrat, also said that public hearings would begin early next month.

It is widely expected that James A. Baker 3d, White House chief of staff, William J. Casey, director of Central Intelligence, and Edwin Meese 3d, the White House counsel, will be asked to testify. Mr. Albosta declined to comment on prospective witnesses.

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Costa Rica Cracks Down on Anti-Sandinist Rebels

By Marlies Simons
New York Times Service

SAN JOSE, Costa Rica — Apparently fearful of being drawn into the Nicaraguan conflict, the Costa Rican government has moved against anti-Sandinist rebels who have been preparing armed attacks on Nicaragua from Costa Rican territory.

In the last two weeks, Costa Rican security forces have arrested more than 80 followers of Edén Pastora Gómez, the rebel leader, seized weapons, boats and vehicles, and warned the group's leadership that its actions are endangering the stability of this tiny democracy.

Late last month, the government ordered 17 Cuban-Americans to leave the country. The minister of public security, Angel Solano Calderon, said they were mercenaries, recruited in Miami, on their way to join the Pastora group.

And last weekend, a container ship from Miami that purportedly held clothing for refugees was found to contain medicines, uniforms and 17 guns, Mr. Solano said in an interview.

Although the authorities here have made occasional arrests and seized small arms before, the present crackdown is the biggest effort yet to restrain the insurgent activities here of the anti-Sandinists.

Political leaders of the Pastora group, which is known as the Democratic Revolutionary Alliance, have held urgent meetings with President Luis Alberto Monge. If the government's pressure continues, members of the group here said, their supply lines may be seriously disrupted.

Apparent criticism of the crackdown by the U.S. ambassador, Curtin Winsor, has irritated senior members of the government.

The ambassador told reporters here last week that in cracking down on the supporters of Mr. Pastora, Mr. Solano was being "overzealous in interpreting President Monge's policy of neutrality."

According to politicians, it is an open secret that the Pastora group has been operating here for the last year with relative freedom and with the assistance or the tolerance of some low-level officials and farmers who rent out their land and airstrips.

But there have been growing signs that the traditional tolerance of Costa Rica may be running out as it is buffeted by the actions of foreigners who, as one police officer put it, "are better armed and trained and have more conspiratorial experience than our own security force."

Within the last week, the poorly trained and normally easygoing civil and rural guards and modest police force have had to deal with what the officer called a series of "bewildering incidents."

Police said they had arrested a member of the Basque terrorist group ETA who had confessed to being part of an assassination plot against Mr. Pastora and Alfonso Robelo, the political leader of the Pastora group.

Last Saturday, guardsmen captured 11 Nicaraguan soldiers who had reportedly landed on the Costa Rican coast while on the lookout for insurgents belonging to the Pastora group.

President Monge called a meeting of the National Security Council and the cabinet Monday to discuss the incident.

U.S. Sets Up Panel to Study Family Violence

Washington Post Service

WASHINGTON — The U.S. attorney general, William French Smith, has called family violence in the United States a "serious and complex crime problem" and named a federal task force to study how the federal and state governments can deal with it.

"The incalculable costs of these crimes in physical and emotional suffering, ruined lives and future crimes are intolerable in our civilized society," Mr. Smith said Monday. He added that the task force will "finally place the problem of family violence in its proper perspective in the criminal justice system."

He said the task force, with a budget of \$500,000, will meet and hold hearings over a six-month period, concentrating on physical and sexual child abuse, spouse abuse and mistreatment of the elderly.

Assistant Attorney General Lois Herrington, who will oversee the task force's work, said that although there are few statistics on family violence and many cases are believed to be unreported, reported cases of child victimization doubled to 850,000 between 1976 and 1981, while a federal study showed that arrests in family-related offenses declined by 24 percent between 1973 and 1982.

William Hart, Detroit police chief, was named to head the task force. Its members include John Ashcroft, Missouri's attorney general; Ursula Meese, wife of presidential counselor Edwin Meese 3d; Ann Burgess, associate director of nursing research at Boston City Hospital; Frances Seward, safety director of the Jamaica Services Program for Older Adults in New York; and Catherine Milton, a researcher and author on law enforcement issues and assistant to the president of Stanford University.

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Congress and Lebanon

An unnecessary debate about the war-making powers of the president and Congress is creating a misleading impression. Americans are not divided about the role of the marines in Lebanon. Only if President Reagan persists in evading a congressional vote of support for their deployment will he invite resistance and send the "wrong signal" that he says he dreads.

In the administration's most forthright statement on the subject, Defense Secretary Weinberger has said the marines and other Western troops are in Lebanon to help "consolidate" the authority of its weak government. Their mission is to deter attacks against the Lebanese army and thus facilitate peace negotiations. He does not deny that Americans are involved, minimally, in the fighting. He thinks "the next few weeks and months will determine whether our objectives are achievable." He begs for that indefinite time.

Members of Congress observe that once the marines became involved in "hostilities," the president was required by law to notify Congress and seek its approval for their deployment beyond 90 days. That is what the War Powers Resolution of 1973 says, and it cannot reasonably be read otherwise.

Congressional leaders of both parties understand that a three-month deadline might encourage one or another Lebanese faction to resist good-faith negotiations. They would therefore endorse the deployment for a much longer period, perhaps even 18 months.

Then what is the problem? Some say it is the same one that led President Nixon to veto the

War Powers Resolution and force Congress to pass it over his veto: The commander in chief resents even an implied restraint on his use of troops. But that was settled a decade ago. Having the constitutional power to declare or refuse to declare war, Congress has an obvious right to legislate the meaning of war.

Some say the automatic 90-day deadline is a form of the "legislative veto" that the Supreme Court declared unconstitutional this year. Others say the president fears a precedent that may restrain him if he should want to take more controversial military action in Central America. But will dragging Congress into court enhance the confidence of Lebanon's government? Would a great legal crisis discourage attacks on the marines, and other efforts to wear down American support for the intervention? And would a potential rejection of Congress's support in the Middle East increase its confidence and tolerance for administration policies in Central America?

The War Powers Resolution is a prudent requirement that when United States troops are involved in foreign combat, they have authentic public support. Surely the first law of war in a democracy is that without public support, no intervention can long be sustained. Mr. Reagan is right to fear that an early, automatic deadline for withdrawal from Lebanon would hurt his diplomacy. The way to get the most from the deployment of marines is to prove by act of Congress that American law, and opinion, stand behind him.

—THE NEW YORK TIMES.

The Wrong Decision

The United States, in the matter of Soviet Foreign Minister Andrei Gromyko's non-attendance at the United Nations General Assembly session, has shot itself in the foot.

It was definitely in the U.S. interest to have Mr. Gromyko show up as usual in New York. He would have been exposed firsthand to the views of nations and great numbers of citizens about the shooting down of the KAL airliner and his government's arrogant conduct afterward. Those views could and no doubt would have been abundantly plain to him, and to everyone else, while his safety and security would have been guaranteed.

Very few people on the American side seem to have acted in terms of this plain American interest. The governors of New York and New Jersey and the local airport authorities, who are no more experienced in foreign policy than in brain surgery, evidently thought they would be striking a blow for, well, something, by banning the Gromyko plane. Some part of the administration then got into the act by determining that the Aeroflot boycott could not be bent even for the customary noncommercial flights carrying the Gromyko party. That de-

termination produced the bizarre invitation to fly a Soviet military plane to an American military field. It is not clear whether officials ever realized that they were handing Mr. Gromyko a ready-made excuse to keep out of a setting that promised to be extremely uncomfortable and embarrassing for him.

So the Reagan administration was left on the defensive explaining why, in its view, it had not violated the longstanding American "headquarters agreement" with the United Nations. "The federal, state or local authorities of the United States shall not impose any impediments to transit to or from the headquarters..." And the Soviet Union, which is working intensively to convince the world that the United States seeks to exploit the airliner incident for nefarious political purposes, was given a gift contribution for that campaign.

From being the party in the dock for shooting down the airliner, the Soviet Union cannot so easily slip into a role, in the lesser banning incident, as the injured party. All the same, it was clumsy of the United States to give the Kremlin any opening at all.

—THE WASHINGTON POST.

Other Opinion

An 'Incidents in the Air' Accord

The risk of a nuclear Sarajevo may be far greater than that of a coldly calculated all-out nuclear attack. We can take measures to reduce the risk of crises and inadvertent war.

The existing Washington-Moscow hot line is clearly one step, but we can go beyond it. One suggestion came from the late Senator Henry M. Jackson, who proposed last year that the United States and the Soviet Union create jointly a "military crisis-control center" where military and diplomatic personnel from both nations would monitor possible crises.

If such a center had existed, the Soviet defense command might have queried the Americans about the nature and mission of the airliner when it first entered Soviet airspace. Both sides then might have cooperated in directing the plane out of Soviet airspace or to a safe landing spot. Even better, the center's experts might have analyzed similar scenarios beforehand, recalling the unfortunate intrusion of a Korean airliner into Soviet airspace in 1978, and formulated standard procedures to prevent such accidental intrusions and to deal with them peacefully if they occurred.

In the Incidents at Sea Agreement signed in 1972, America and the Soviet Union agreed on procedures for avoiding and coping with collisions and near-collisions between American and Soviet naval vessels. Why not an Incidents in the Air Agreement for civilian aircraft?

—William Langer Ury, head of the Nuclear Negotiation Project at Harvard University, writing in the Los Angeles Times.

A Tax Threat to Multinationals

If military taxation, now spreading through individual states of the United States, takes hold in the rest of the world, it will pose a real threat to the continued operations of multinational companies. Under the system of unitary tax, a host country or state does not tax the

earnings of a subsidiary company based within its borders. It instead claims a share of the parent company's global profits. It derives this share from some calculation of the proportion of the multinational's total business that is transacted locally. The idea has some superficial appeal. It is clear that multinational companies try to minimize their aggregate tax bills.

The use of tax havens as collecting points for revenue is a common, multinational practice. The manipulation of prices at which goods and services are transferred between subsidiaries offers another means whereby group profits can be steered toward low tax areas.

On balance the ineradicable element of tax avoidance by multinationals is probably an acceptable price to pay for the continued operation of such companies in a world that has yet to develop a global tax authority.

Such companies undoubtedly help in sustaining free trade. They promote an efficient international division of labor, and allocate investment resources appropriately and with appropriate expertise. If international unitary taxation is allowed to become an established practice it could pose yet another obstacle to resumed growth in the world economy.

—The Financial Times (London).

A Year of Woman in America

The coming year could be the year of the woman in Washington. A politician's number-one job is to get re-elected, and in 1980, for the first time in a presidential election, women went to the polls at the same rate as men. That watershed event did not go unnoticed.

With another big election roving into view, the polls are starting to jump aboard whatever pieces of the women's issue best suit them philosophically, with special emphasis on bills that won't cost the government any money. Chief among these: proposals to strengthen women's access to retirement income.

—Syndicated columnist Jane Bryant Quinn.

FROM OUR SEPT. 21 PAGES, 75 AND 50 YEARS AGO

1908: Bryan Frightens Wall Street

NEW YORK — Wall Street during last week experienced the first effective political scare of the season. Prices broke sharply all along the line. Under heavy selling the bear traders worked aggressively for reactions and caused considerable liquidations. Although there was considerable material upon which to base a Bryan scare, the opinion prevails in many quarters that the managers of Mr. Taft's campaign were not averse to its occurrence. Some persons go so far as to say that the scare was probably helped along by the Republican campaign managers, partly out of the apathy into which the campaign had fallen.

1933: California Wants to Import

SAN FRANCISCO — Increasing difficulties are being encountered in the application of the law forbidding public administrations in the State of California to place their orders for goods and material outside the United States. The chambers of commerce, notably those of San Francisco and Los Angeles, have taken up the matter and asked the state chamber of commerce to point out to the authorities the harm that may be done to the interests of this eminently exporting state by the measure. There is a current of opinion that it would be in the interests of America and California itself to repeal the law as soon as possible.

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The Partisan Peacekeeper in Lebanon

By William Pfaff

PARIS — There is a contradiction in what the United States is trying to do in Lebanon. It is the same contradiction that exists in American Middle East policy as a whole. Washington wants a strong Lebanese government that will reconcile Lebanon's communal factions and become master in its own house. It would also like to see a reconciliation of the Arabs with Israel. But the United States at the same time is a partisan in the Middle East.

America is Israel's ally, and Israel is the force that destabilizes and divides the Middle East by its very existence as a Western, Jewish state implanted in the midst of Islamic societies.

Israel is the central factor in the Middle East's crisis, and in Lebanon's. Moreover it will not — and cannot — go away. What to do about Israel has been the dominant and ruinous issue in Arab political life since 1948.

Every enlargement of the U.S. role in the Middle East implies a strengthened Israeli position. It is Washington's policy to underwrite the security of Israel. The United States would not even be involved in the Eastern Mediterranean were it not for Israel. The American national interest in Middle Eastern affairs concerns Western access to Arab oil, but that oil is mostly in Saudi Arabia and the Gulf region. There is no oil of consequence in Syria, Lebanon or Israel.

The United States would like to see Lebanon stable for Lebanon's own sake and for the sake of stability in the region. But it took on its present role in order to limit the influence of the radical Arab states in Lebanon, states whose

very "radicalism" lies chiefly in their unqualified hostility to Israel and to the United States.

Washington cannot be partisan and nonpartisan at the same time. The U.S. Marines in Lebanon cannot be described merely as peacekeepers. The United States is a partisan of Israel. It cannot, and will not, offer any concession to the Arabs to settle the Middle East crisis, which would be costly to Israel, or rejected by Israel.

Even the most moderate Arabs want an Israeli settlement with the Palestinians, yielding of the West Bank, a Palestinian state. This the Israelis will not consider. The United States can do little. Even if the United States were to treat with Israel and end its aid, a prospect that is not present in the Israeli mind, the Israelis would not thereby change their policy.

And the Arabs will not relent. Why should they? Egypt, Syria, Jordan and Lebanon have borne the burden of the struggle with Israel. Now Egypt is out of it. Jordan wants to be out. Israel has amputated southern Lebanon and Syria has amputated the north. In practical terms, this is a Syria-Israel confrontation now — and capable of becoming a Soviet-U.S. confrontation. The other Arabs are mostly onlookers.

Lebanese President Amin Gemayel had his position strengthened materially by the arrival of U.S. Marines and the support of the United States. He was at the same time compromised further in the eyes of Lebanon's Moslem and

Druze communities, and in those of Syria and the Soviet Union. The American link to Mr. Gemayel made it inevitable that the Syrians would oppose him. They have to regard any consolidation of his power as a consolidation of American power and a strengthening of Israel.

While the hatred that exists among Lebanon's communities has particular roots in the history of that country (and in the history of the region, before Lebanon became a country), by now it has become the vehicle of violently opposed forces in the larger world. No lasting solution in purely Lebanese terms now seems possible.

The alternative to reconciliation is promotion of one of the groups in Lebanon to power over the rest — that, or simply partition of the country. Partition would suit Israel and Syria. It is not what Washington wants, but the solution Washington wants is the one it is least likely to get.

Thus the United States is tempted to back the Gemayel government even more strongly, and to move against the Syrian and Palestinian interventions. That would be to badly miscalculate the dimensions of this conflict.

Lebanon's is assuredly a civil war, but it is also the gruesome shadow play of that international conflict in the Middle East in which the United States has been a partisan but until now not a participant. New American action in Lebanon could change that. It would be a bad idea. Further internationalization of the Lebanese crisis serves no one's interests.

International Herald Tribune.

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For the Marines in Beirut, It's Mission Impossible

By Ze'ev Schiff

WASHINGTON — As an Israeli journalist, I have little to add to the political debate about the proper limits to the U.S. role in the Middle East. What I do know from my country's bitter experience in Lebanon is that the military task that the United States has taken on is almost certainly an impossible one.

Neither the marines nor the American aircraft carriers standing off the coast can hope to solve the military problem in Lebanon.

The irregular forces opposing the marines are relatively small in number. Yet even if thousands more marines were sent to Lebanon they would not be able to stop the civil war. The question is not one of military ability or firepower. The marines, like the Israeli army, are capable of capturing the Chuf and controlling most of the Beirut-Damascus highway. But then what?

The Lebanese government would undoubtedly be pleased, but in the eyes of the Druze and Moslem populations of Lebanon, the Americans — like the Israelis and the Syrians before them — would be looked upon as an occupation force.

The Americans would have to take up new positions opposite the Syrian army, with its Russian military advisers and Russian-managed missile batteries. In these positions the marines would oppose Iranian and Libyan volunteers as well as radical Palestinian units.

Moreover, like the Israelis, the marines would be responsible for what happens in the territory under their control — including, possibly, civilian massacres like the ones that occurred last year in Beirut.

The marines are already in an unbearable military situation. They are fighting at a disadvantage, under constant enemy fire, in an open area that is controlled from the mountains in the east. Many are deployed over Lebanon's international airport, always a prime target for anti-government forces. It was hardly surprising when two marines were killed this month very near the spot where eight Israeli soldiers were killed by Palestinian mortar shells in August 1982.

The Americans are further disadvantaged by the military and political restrictions they have placed on themselves. Unlike Israeli pilots, who were free to initiate attacks — and even so could not completely knock out the enemy's artillery — U.S. aircraft carriers can respond only to marines' calls for help. The

marines themselves can fire only from a distance and in reaction to the other side's initiatives.

A few sporadic mortar shells or a hidden Katyusha rocket would be enough to inflict American casualties. Those who wish the marines to leave Lebanon are thus fighting a cheap war of attrition against an absurdly vulnerable adversary.

The easiest remedy would be to withdraw, leaving the Lebanese to deal with their own problems: Let them try to end the bloody civil war by themselves. This, at last, is what Israel is trying to do. As one who has called for an Israeli withdrawal from the Chuf and the Beirut area, I would have to be very cynical indeed to recommend that young Americans take our place.

The problem is that, unlike the Israelis, the United States cannot simply withdraw. A sudden pullout would result in heavy marine casualties and probably in the fall of President Gemayel, whose chances of holding on to the presidency are not good in any case. Withdrawal would thus lead to unequivocal victory for the supporters of the Soviet Union in the Middle East.

Clearly that would be unacceptable.

able. But the solution is not military. The Lebanese army cannot be relied upon. Its composition reflects the country's internal divisions, and it will probably be unable to function as it should until that basic civil dispute is resolved. So the solution must be a political deal between Mr. Gemayel and his Druze opponents.

Since 1975, all efforts to negotiate a solution have failed, as have Syrian and Israeli military efforts. The Syrians and the Palestinians will undoubtedly try to block any agreement now, and as time passes their influence on the Druze will increase. Washington must press for an agreement before it is too late — before the Syrians and the Palestinians strengthen their military leverage over the Druze in the Chuf.

The United States has no alternative. The civil war will spread, Lebanon will remain divided and the marines will be caught in a Lebanese swamp, fighting a war of attrition that has no military solution.

The writer, on leave from his job as defense editor of the Israeli newspaper Haaretz, is a senior associate at the Carnegie Endowment for International Peace. He contributed this comment to The New York Times.

The Third World Crisis: Arming to Face the Mobs

By Charles William Maynes

WASHINGTON — Developing countries are rebelling against IMF discipline. The main debtor countries of Latin America, meeting in Caracas last month to discuss common action, reached a consensus that has reduced pressures for a time, but many politicians in South America continue to talk about declaring a moratorium on debt payments.

In Africa, populations are actually returning to the bush. Thousands of Ghanaians expelled from Nigeria during the last year had no work to go back to in Ghana. They had to return to their villages, and the world may never learn their fate. Africa today has millions of people moving across borders and within countries in a search for survival.

Even the favored are suffering. No country in the Third World has been as blessed by the arrival of Ronald Reagan to power as Jamaica. Mr. Reagan has repeatedly cited the victory of Edward Seaga over Michael Manley as a victory for democracy. Jamaica, which the Reagan administration would like to turn into a showcase, is now the fire-latest per capita income of U.S. nations. Nevertheless, unemployment is nearing 30 percent and a major foundation of the Jamaican economy has become illegal drug shipments to the United States.

There is a fantasy-land quality to the Jamaica seen by foreigners. Officials urge potential foreign investors to visit two "model farms" run by Israeli investors, but these employ only a few hundred people. Meanwhile, Mr. Seaga's free market policies, which are operating in a bare international atmosphere, have proved to be a catastrophe for the thousands of small farmers whose products cannot compete with cheap foreign food and who cannot find jobs in the city.

Jamaica is a good example of the problems that Third World governments are facing today.

Mr. Seaga has not mismanaged. In his first year he curbed the rate of inflation, increased tourism and attracted the interest of foreign investors. But any effort to float one boat in the fleet higher in the water than the others will fail. Jamaica has found that its economy floats at the same level as those of its neighbors, notwithstanding a favored place in U.S. aid disbursements. Investors cannot be attracted to Jamaica unless the world economy is in such difficulty.

Will the Third World accept its fate without major political protest? Here the lessons suggested by the 1930s are instructive, and chilling. In Latin America, the collapse of commodity prices in the Great Depression helped stimulate 30 revolutions by 1933. In El Salvador, rebellion and brutal repression claimed tens of thousands of lives. The anger and the mythology that help fuel the Salvadoran civil war today date from that conflict. Violence, rioting and repression were commonplace all over the Western Hemisphere, not-

bly in the countries that are causing such concern today — Nicaragua, Honduras, Guatemala and Cuba.

In Asia, too, the collapse of sugar, rubber and other commodity prices encouraged vast political changes. The sugar issue set off the first American attempts (sponsored by sugar-state senators) to grant independence to the Philippines. Gandhi began his civil disobedience campaign by setting out an economic issue when he led a march to the sea to make salt illegally. The collapse of Vietnam's colonial economy led to the first serious challenge to French authority there since the turn of the century. Although it was put down, it fueled hatreds against the West that blazed again in the '50s, '60s and '70s.

In the 1980s the predictable consequences of economic depression will be reinforced by a powerful new factor: the large number of young people in the Third World. Social scientists have long seen a correlation between youth and violence. In many of the developing countries at least half the population is under 20. In recent years it has been the young people who have flocked to the cities looking for opportunity.

This explosive mixture of economic stress and impatient young populations may finally be proving too much for many governments.

Violence has flared and governments have tumbled all along the coast of West Africa. Tremors have shaken the once-stable political landscape in Kenya.

The authoritarian governments in the southern cone of Latin America seem certain to fall. Ethnic troubles are recently rocked Sri Lanka. The Philippines appears to be on the verge of major political change.

A particularly troubling aspect of political turmoil in the Third World is the opportunity it offers to outside powers to intervene. As the international economic climate curbs economic prospects within their own countries and compounds their own economic mismanagement, the ability of Third World elites to buy off the angry masses decreases. They become increasingly vulnerable, and outside powers move in.

Those with money can buy out countries for a few million dollars. Libya, for example, gave \$100 million to Nicaragua after the United States closed down its \$75-million economic aid program. It tried to buy out Liberia after the coup there, before a panicked U.S. administration restored its support. And it provided assistance to Ugandan dictator Idi Amin in his final days in power.

Those imparting military skills can offer the local elite help in organizing a praetorian guard to fire on the mobs when they revolt. Cubans, East Germans and the Soviets perform this security function in Angola and Ethiopia. Israel is training President Mobutu Sese Seko's guard in Zaïre. France provides security functions in the French-speaking African states. The United States and Cu-

come clients of an outside power willing to provide protection.

In this regard, the turn of several small African states toward Libya may reflect their struggle for survival as much as any imperialist design on the part of Libya.

In other words, much as the United States prefers the status quo, it may have to live with change, even undesirable change. But prudent policy would call for the United States to work with others to limit the scope of change that its enemies can exploit more easily than its friends.

Realistically, however, a common effort is unlikely to occur; for the trends within the U.S. government are all in the opposite direction.

This is the second of three articles from The Washington Post. The writer, who served as an assistant secretary of state in the Carter administration, is the editor of Foreign Policy magazine.

LETTERS TO THE EDITOR

Policy Toward Nicaragua

Regarding "Reagan to Challenge Congress on Central American Policy" (IHT, Sept. 13) by Philip Taubman:

There is little difference between the Soviet maneuvers in Eastern Europe during the Polish crisis and covert Soviet aid to install the Polish military government on the one hand, and the U.S. maneuvers in Central America and covert U.S. support for Somocera's former National Guard on the other — except perhaps that the Polish military establishment has a relatively better reputation than Somocera's National Guard.

If President Reagan wants so badly to "let Poland be Poland," why can't he let Nicaragua be Nicaragua?

Why must the United States have a Soviet-style string of satellites in Central and South America?

CLAIRE LEE CHEMNAULT, Chevannes-de-Bogis, Switzerland.

Regarding "Government Is Said to Control Nicaragua's Industry" (IHT, Aug. 19) by Kenneth Freedy:

Mr. Freedy reports that Nicaragua has suffered badly from poor weather and the worldwide recession, with falling markets for its major agricultural exports and for manufactured goods aimed at Central America.

In addition, of course, the Reagan administration has withdrawn economic aid, imposed an unofficial

trade boycott and stopped nearly all credit, making it nearly impossible for the leftist government to obtain financing and goods from its former major trading partner.

One would think these catastrophic conditions would be sufficient to explain the fall in agricultural and manufacturing production and the reduction in economic growth in 1982. So it comes as a surprise to read that the major problem remains poor management and inefficiency, according to "many economists."

Obviously the major problem for readers is to recognize that some economists can be found to say almost anything, anywhere, on any subject, to conform to a predetermined line of political bias.

D. CORDES, Sydney.

Regarding "Casinos and the Compulsive Gambler" (IHT, Sept. 8):

Dr. Sirgy Sanger is correct in saying that the desire to gamble develops during childhood. As a teenage American I have seen the effects of video games on some of my friends.

The effects — on players of all ages — may not be as grave, but Pac-Man promotes the same indifference and neglect as blackjack.

BLAKE ROBINSON, Paris.

Young Video Gamblers

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Two Fronts Put France In a Corner

By Dominique Moisi

PARIS — With more than 4,000 troops in Chad and Lebanon and sizable quantities of weapons engaged on the Iraqi side against Iran, France has never been more involved militarily on the international scene since the end of the colonial era.

These interventions, although largely the result of circumstances, carry on a well established tradition of the Fifth Republic; the most spectacular case was the 1978 paratrooper raid in Zaïre to rescue foreigners trapped in the rebel-held city of Kolwezi. But the involvements are of a different and riskier nature, even if their legitimacy is not questionable.

Previous French interventions were limited in scope and scale. They were either openly political to support or topple the African leader of a friendly regime, or were presented as humanitarian gestures, as in Kolwezi. In Chad and Lebanon the chances of success of French intervention are less obvious mainly because the settings are far more complex.

In Chad, France runs the risk of being trapped in an endless conflict for the sake of a state whose artificiality, the legacy of its colonial past, is beyond repair. France's ally, Hissene Habré, is the temporary depositary of legal authority and is resisting Libya after being its ally. Nobody in France — except for the Communist Party, which always speaks for Soviet interests — seriously disputes the legitimacy of the French intervention.

It is agreed that France should keep its commitment to maintain legally established regime in French-speaking Africa. Chad must not become for France in Africa what Iran became for the United States in the Gulf region. Furthermore, restraining Libyan ambitions helps contain Soviet penetration in Africa.

If there is agreement on goals, there is no consensus on means. Many fear that France's intervention has come too late after the fall of Faya-Largeau. As a result France must now maintain a presence whose economic, military and ultimately political costs will grow with time.

In Lebanon, the French intervention is highly problematic, given the insoluble local equation. The Lebanese situation is even more tragic, for Lebanon, unlike Chad, had a stable state for more than 25 years.

In Beirut, the French, like the other members of the multinational force, have the uncomfortable and increasingly surreal role of ensuring a shattered peace in the name of a state that may no longer exist, victim of the political suicide of its elites and the greed of its neighbors at a time when its inner vulnerability was exposed by the explosive Palestinian question.

The French presence in Lebanon is not disputed domestically; it is perceived as having historical, cultural, even religious legitimacy. But that presence may rapidly appear either too costly or irrelevant or both.

It is no accident that French casualties have been three times those of the United States. By shelling French positions, Syria, through its allies or directly, punishes the arms supplier of its principal enemy, Iraq, and discourages a bothersome presence. And casualties in Lebanon might reduce the French public's support for military initiatives in Chad.

The function of the multinational force in Lebanon is becoming less and less clear. Is it to support the Gemayel government, protect the Christian population, assist Syrian ambitions — or has its deterrent role been reduced to self-preservation?

More than the matter of means, although the simultaneity of the two interventions may pose military problems, there is a question of goals. France should be present in Chad and Lebanon, but for what purpose and for how long? The Chadian and Lebanese situations are extremely complex. There are no foreseeable stable solutions.

These are not ideal settings for a test of will or strength. The old days of surgical, decisive interventions may be over. It is an irony of history that in France a Socialist government should be the one to discover it.

ARTS / LEISURE

France's Cresson: Tomatoes to Tourism

By Nina Hyde
Washington Post Service

WASHINGTON — Edith Cresson smiles as she is reminded of a story when she was France's minister of agriculture and pelted with tomatoes during a farmers' strike. "It was worse," she laughs. "I had to be rescued by a helicopter."

Cresson refused to quit and run. "I was fond of them and that was making them mad. They couldn't imagine that a woman could be a minister of agriculture, first, and a woman being a Socialist was making matters worse. And that I was not afraid. I saw it made them mad and so then I realized that I couldn't turn back. I had to face it."

Now she is facing different problems as minister of external trade and tourism in the third cabinet of Francois Mitterrand. The first woman to hold such high-level cabinet posts in France, she is just as feisty and outspoken as she was on her old turf.

Cresson's visit here coincides with Bloomingdale's salute to France, which opened in New York and Washington last week. During a stop at the French Embassy, she dismissed criticism at home of government support for the Bloomingdale's promotion: The French have given Bloomingdale's about \$375,000 at a time when the French economy is weak. Besides, she adds, the money is not a lot. "That is the interesting thing with trade. You need to place it well. I say the French are often penny wise and pound foolish. When you want to receive you have to give. It is a great lesson."

Clearly, Cresson, 49, is more comfortable in her new post. "Since I left agriculture everyone seems intelligent, charming, full of ideas and not complaining. And not always asking for money." She is touring several U.S. cities with more than 200 French business leaders. "They all are nice and say things like 'thank you' — I never heard that before."

She also dresses differently now. "I didn't dare dress up as minister of agriculture. I had always very [closed neckline] things, everything was plain; I didn't have any desire to dress. I was so tired. I arrived in the morning [at the office] and learned of a cow manifestation [strike]. I fought like hell because [farmers] earn more money than ever before. And this is another thing they couldn't admit."

Dressing is easy when Dior lends you things, she admits. She knows Nancy Reagan would be criticized for such a thing but she is not. And it's "good publicity," she says, when she toots the clothes of less known talent; she is wearing a Torrente blue herringbone blazer outfit.

As the only woman in the ministers' council, which meets with the president every Wednesday, she feels no constraint. They address each other by their first names and the familiar "tu," she says. Even Francois Mitterrand, when she sees him in private. She has known him since 1965 when he was the Socialist candidate in a campaign for a new constitution. She became his secretary.

"He has made a great effort toward women. He is 66 and it was not in his upbringing. He thinks, like a lot of French people, that it is nice to have women around you." But did she ever encourage him on feminist issues? "Never, never," she shouts with a laugh. "You can speak about a woman to him as beautiful and charming but never in the political sense. He hates it and the feminist thing."

While she appears bold and confident, Cresson makes a wish on the squirrel that darts on the lawn off the patio of the French Embassy. She is wearing a carved garnet ring "for luck." It was designed and given her by her "adopted mother," she adds, "I had my own mother and a bit narrow-minded, and this woman was a genius, very brilliant, very beautiful, very elegant. She was a woman of style, education, very advanced for her period, and also a woman of extraordinary taste who made clothes for herself and for me."

Cresson's tour, which started in New York, concludes in Houston. T. City she feels she knows from her fascination with the series "Dallas," which she watches religiously every Saturday night. She loved going to foreign meetings as agriculture minister, something she does less frequently now. "I could get the advance story of 'Dallas' from countries which had the series before us. I always asked them what happened."

"It is so amusing and so nasty. I like it very much," she said. And when she gets back to France the U.S. television show "Dynasty" will have begun. "I hear it is worse. I can't wait."



Minister Cresson promoting French product.

'The Genius': Doomsday Power Games

By Sheridan Morley
International Herald Tribune

LONDON — Exactly 10 years after "Magnificence," and just three years after his splendid translation of "Galileo," Howard Brenton is back at the Royal Court with "The Genius," a play that wonderfully confirms his gift for eloquent political outrage while simultaneously reminding us of the trouble he has always had with plots.

Here we have Trevor Eve, hot from "Children of a Lesser God," playing yet another American teacher in trouble. This time he's a Nobel Prize-winning mathematician from the Massachusetts Institute of Technology who has inadvertently stumbled on the final doomsday equation. Rather than give it to the Pentagon and await the big bang, he has exiled himself to a minor English university, only to discover a first-year student (equally superbly played by Joanna Whalley) who has not only made the same nuclear discovery, but is now intent on writing it out in the snow for all to see — all in this case being the American exile and the wife of a local bursar with whom he happens to be having an affair.

Here, as in "Magnificence," Brenton has managed to create a cynically funny study of English academic power games: Whether it's the vice chancellor (Clive Swift) noting that "in a big institution it's an essential condition for progress that nothing happens" or merely the observation that "if you fool around with the secret of the universe, the local cops are bound to call," this remains a scathingly witty outline of the tortured path to Greenham Common. It's about the children of Galileo, but it's also about the author's deep-seated conviction that most of what's wrong even with nuclear physics has to do with unnamed men in Whitcomb suits spiriting people off the campus in midnight cars. As conspiracy theories go, this seems to me one of the less well-developed holes in the plot of "The Genius" to accommodate an entire brigade of secret policemen. The only other professor we meet in the play turns out to be a bicycling Russian spy building a do-it-yourself bungalow near Moscow, and one of the only two other students is already on loan from M15.

But Brenton writes with such magnificent vitriol, and Danny Boyle's production moves at such a cracking pace, that the hash-brown despair of Eve's wandering academic gradually gives way to a manic doomsday farce through which can still be glimpsed the outlines of a major play.

At the end of what has been for him a quite remarkable Barbican summer, Derek Jacobi follows his Peer Gynt, his Benedick and his Cyrano with a surprisingly youthful Prospero in a glistening production by Ron Daniels from the last Stratford season. This is a "Tempest" for the eye rather than the ear: Maria Bjornson's wonderfully magical set and a heavily choreographed masque suggest a ballet or an opera rather than a play, and many of the cast are a lot better at the movement than the verse.

As for Jacobi himself, however, the owner of far and away the best Shakespearean voice since Gielgud's finds himself on the wrong side of 50 for the full majesty of Shakespeare's great farewell to his own as well as Prospero's magical art, and perhaps also a little light-weight to be in full control of such creatures as Bob Peck's splendidly speckled Caliban. Nevertheless, it remains a production of stunning beauty. Stephen Oliver's score and

Alice Krige's slowly awakening Miranda will remain the happiest memories.

In the Barbican Pit, Mikhail Bulgakov's "Moliere" is being played by Anthony Sher as a companion-piece to his Tartuffe, though in rather less manic style. As translated by Dusty Hughes, the play seems to bear a marked resemblance to the Dumas/Sartre "Kean" in that here too we have a backstage saga about actors in thrall to omnipotent monarchs who use them as court jesters. But through the apparent conflict between Moliere and Louis XIV (glitteringly played by John Carlisle) we are supposed also to see the reality of the conflict between Bulgakov himself and Stalin, a conflict which allowed the play only seven performances at the Moscow Art Theater in 1936 after a rehearsal period of more than four years.

The interest in this "Moliere," underlined by an early onstage appearance by Bulgakov himself, is therefore historic and political rather than dramatic. This is not in truth a very strong play, though it is sturdy, directed by Bill Alexander and Sher has some good moments, notably with Penelope Beaumont and Katy Beahan as his mother-and-daughter lovers. Those who need to know any more about Moliere than Kean told us about Kean are advised to go back to the biographies.

Sony Shrinks New Walkman to the Size of a Tape Cassette

By Hans Fintel
New York Times Service

NEW YORK — Engineers fondly speak of a "new generation" whenever a radical design change is adopted in a product.

Biologists, from whom the word was borrowed, may well look puzzled. In the animal world and among plants, succeeding generations are usually pretty much alike, otherwise it would surprise most parents. If the coiner of high-tech lingo had read their Darwin, they would realize that the radical changes they wish to describe are not of a generational type at all. More aptly, they could be compared to the mutational origin of a new species.

This is certainly the case with a new "generation" of Sony's Walkman, which is so much smaller and lighter than its ancestors that it constitutes a virtually new species of portable cassette player. Set it side by side with its predecessors, and you immediately notice that the new model is about one-third their size and weight. In fact, the new WM-10 is barely larger than the size of the cassette it plays and no bigger.

Where then is the space for the battery, the motor and amplifier? The extra space is created by a tiny slide drawer which can be pulled out to extend the width of the cassette holder when a cassette is inserted.

What prompted this extra step toward the infinitesimal when the earlier Walkman was itself a remarkable feat of miniaturization? A Sony executive in a trim-fitting suit offers one rationale: "Why, the old one made a bulge in my pocket."

The notion of pocket stereo with musically acceptable fidelity was itself quite radical less than four years ago, on the advent of the Walkman. Nobody could have foreseen at the time that the new gadget would quickly grow into an international craze, a new way of experiencing music, and an occasional traffic hazard. Nor could anyone have predicted a technology that since then has opened the way to even further miniaturization. With the size of the cassette itself and the size of the battery as irreducible givens, everything else had to be made smaller — the drive motor, the dual-channel audio amplifier, the built-in Dolby noise reduction system, the tape-type selection, and the complex circuitry that assures correct motor speed and minimizes flutter and wow. The latter compares the rotational speed of the tape drive with a highly accurate electronically generated standard frequency to assure accurate speed. As a result, the tiny device attains a constancy of motion that, in earlier stages of electronic design, could have been achieved only with heavy and bulky flywheels. The wafer-thin drive motor is so efficient that a single penlight battery lasts for five hours of continuous use — much longer in intermittent use. Moreover, the mechanism is so light that the entire player — with battery inserted — weighs only 6.4 ounces.

Much of this delicate metal tracery inside the little box was created by means of photographic reduction, whose optical precision exceeds the cunning of any hand. Of course, the techniques of microcircuits are not exclusive to this particular design — they are standard through the electronics industry — but they have certainly found some of their most delicate and ingenious applications in this instance.

Not content with shrinking the tape player, Sony also reduced the size of the earphones. They are so small that they fit inside the ear rather than over it, yet they do not plug the ear in the manner of hearing aids. They let you hear what happens in the outer world — a safety factor if the Walkman takes to the streets. However, this approach has been successful only in the sense of achieving a workable compromise between size and performance. In comparison to conventional earphones which sit atop the ears, the new model doesn't quite achieve the same sonic richness in the lower range. This may or may not matter greatly to casual listeners or to those less intent on symphonic orchestrations. Besides, anyone who wants a bit more weight in the lower reaches of the musical gamut always has the option of using the old Walkman with conventional earphones.

Sony envisions its WM-10, launched this month and priced at \$99, as the herald of a series of ultraminiature components, including a similar model with a built-in FM tuner.

I slipped the new Walkman into my shirt pocket (no bulge in my jacket) and rode home with Schubert on the bus, remembering my first portable tape player of not so long ago. It was the size of an overnight suitcase, weighed some 20 pounds, and you could see its tubes glowing red-hot behind a metal grille. It didn't play cassettes. They hadn't been invented yet. Speaking of mutational change — it's happening fast.

And finally, to the Lyric Hamersmith (and maybe to Western Europe for a rather longer exile) has come Yuri Lyubimov, the great Soviet director of Moscow's Taganka Theater, with a version of "Crime and Punishment" that allows an all-British cast, though working through an interpreter, to achieve some of the stylized flamboyance that has been Lyubimov's trademark in the Soviet Union. Michael Pennington as Raskolnikov, Bill Paterson as his police interrogator, Paula Dionisotti as Katerina and Gary Waldhorn as Svidrigailov, all give memorable performances that suggest they have just been released from years of captivity in BBC classic serials and are now free to rampage through the text much after the fashion in which the Royal Shakespeare Company rampaged through "Nicholas Nickleby."

It's true that the constraints of language, a scratch company and a monthlong rehearsal period have denied us another "Nickleby," but this "Crime and Punishment" needs to be seen by all who still think of Russian theater in terms of dead seagulls.

Bumper Champagne Crop
United Press International

PARIS — The 1983 champagne crop is likely to be exceptionally large, although not of such high quality as last year's bumper harvest. Yves Benard, president of Moët et Chandon, said France's 15,000 champagne growers were expecting an exceptional grape crop, at least in quantity, for the second successive year.

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INSIGHTS

New Breed of U.S. Diplomat Learns the Trade by Acting Out Crises

By B. Drummond Ayres Jr.

New York Times Service

WASHINGTON — Start with the odds. Only about one out of every 100 will make it.

Nevertheless, more than 16,000 candidates have applied for the State Department's annual Foreign Service exam, through which the nation's future diplomats are chosen. This enthusiasm demonstrates anew the powerful appeal of a diplomatic career and rebuts assertions that low pay, slow promotions, political appointments and boring bureaucratic routine are seriously eroding the prestige of representing the United States abroad.

Many of the candidates are among the nation's brightest, their resumes heavy with graduate degrees and honors citations, their hopes high for a life of travel, challenge and service as consular officers, political and economic analysts, negotiators and, of course, as full-fledged ambassadors.

But when the selection is completed in November, only about 375 of the original 16,000 aspirants will qualify as trainees, and only about 150 of these will actually enter the service. That's the way it typically works out.

The diplomacy that the successful applicants will practice differs from that performed by their predecessors of even a decade ago. While the nitty-gritty work of issuing visas, filing political and economic reports and showing the flag is much as it has always been, just about everything else in diplomacy — the issues, the logistics, the methodology — has a new twist.

More and more, one-to-one alliances have been replaced by special-interest blocs, and tariff-trade agreements by overlapping global economic systems. Jet planes have accelerated the use of peripatetic special envoys, sometimes from outside the diplomatic corps. And increasing direction from the home office has rendered traditional pinstripe work and formality all but obsolete at times.

Embassy Operations Simulated

The training that today's appointees receive reflects these changes. No longer do trainees learn the rudiments of diplomacy simply by sitting through lecture after static lecture. Instead, they attend modernized courses at the Foreign Service Institute in Rosslyn, Virginia, just across the Potomac River from the main State Department building, where they acquire workaday skills by simulating embassy operations in underdeveloped, affluent and openly hostile countries. The emphasis these days is more on how to protect yourself from terrorists than on worrying about knowing which fork to use.

To keep up with all of this change, the composition of the U.S. Foreign Service is also changing, with the State Department actively striving to rid the service of its clubby, establishmentarian, all-white, all-male image. The effort seems to be succeeding. About one of every three trainees these days is a woman, and about one of every 10 is black. And more of today's young diplomats are drawn from top-notch state universities instead of ivy-twined Eastern colleges, once the main source of supply.

There is still an old-boy network within the State Department, but it is now based more on friendships made in the service than on those made at some upper-crust university or mahogany-paneled men's club.

But the Foreign Service exam, that legendary hurdle which tests intellectual mettle and social intercourse, has not changed. If anything, it is getting tougher.

"There just isn't anything quite like it," said A. David Miller of Minneapolis, a recent trainee, who is now serving in Calgary, Canada. "I know people who have taken all the other exams, from college entrance to national scholar to grad school, law, medicine — you name it — and none of those are in the same league."

Of the 16,829 candidates who took the four-hour written test last December, only 2,587 passed. And that was just the start of the weeding-out process. Of those 2,587, more than 2,000 are expected to flunk the daylong oral assessment exams that will be given through November at various points around the country.

Of the 500 or so candidates who survive the oral, at least 125 will be eliminated by medical and security checks or, more likely, will be lured away by international corporations during the drawn-out selection process, which can include several months of waiting before one is admitted to the training courses, given only six times a year to groups of about 30 people at a time. "We simply produce the number of people we need any given year," explained Frontis B. Wiggins, the veteran Foreign Service officer who runs the examination process from the Rosslyn Institute.

"You've got to be willing to stick it out," he said. "In many ways, joining the Foreign Service is one of the most difficult employment challenges in the country."

Broad Knowledge Required

Is it possible to cram for the Foreign Service written exam? "No," said Mr. Wiggins. "It's a test of what you've learned in life so far. The best preparation is to read widely and possess a good general education and some work experience, such as the military or the Peace Corps."

The exams are designed to measure a candidate's knowledge and understanding of government, geography, international relations, the arts, science, literature, politics and philosophy.

Certain segments test writing ability, a key requirement in a business heavily dependent on reports from the field. Others determine what general abilities a candidate brings to the various fields in which Foreign Service officers specialize: consular work, administration, and economic or political analysis.

A candidate's score in a particular area can determine whether he or she is assigned to that field of work — a "cone" in State Department parlance — for the better part of a career. A large number will end up in the consular cone, where many will find that stamping foreigners' visas and listening to the complaints of distraught American travelers can be a dispiriting grind. "We don't want them adequately about this," one State Department official admitted privately.

Applicants from colleges that specialize in foreign affairs tend to do well on the exams, but not significantly better than graduates from schools that have top-rated departments in political science, history and literature. Allan E. Goodman, an associate dean of the School of Foreign Service at Georgetown University in Washington, conceded the point. But, he added, "It doesn't bother us all that much, because the Foreign Service is only a small part of the pie these days. More and more of our graduates are drawn into the business world, where they perceive greater opportunities and better pay."

Quality Is a Concern

The official State Department line holds that the rigorous examination process virtually guarantees quality, and there is considerable evidence to support that assertion. More than half of the Foreign Service Institute's recent graduates have master's degrees. One in 10 is a lawyer. One of every 20 holds a doctorate. Almost half possess acceptable skills in at least one foreign language. And now that the age limit for entering the service has been raised to 60 from an earlier ceiling of 51 — the current average age — many also have outside work experience.

Yet there is concern. "I don't doubt that we're getting plenty of people out of the top 10 percent in America," one State Department personnel specialist said. "But I worry that we're not getting enough from the top 2 percent or 3 percent, the place where you find the budding geniuses, the next statesmen."

Richard Gardner, a former U.S. ambassador to Italy, agreed. He recalled a recent, disturbing meeting with 30 "exceptional" young men and women working with several leading New York City law firms that have a particular interest in international affairs. "About half of them," Gardner reported, "said they would have chosen a Foreign Service career had they not been deterred by the low salary scale, the triviality of much of the work given to young officers, the excessive number of unqualified political appointees to ambassadorial positions and the failure of the department to develop a fast-track promotion system and other rewards for exceptional talent. We won't be attracting enough of the 'stars' in the new generation until something is done about these problems."

But Frontis Wiggins disagreed. "When you look at the grades, the degrees and the experience of the people we're now getting, you can't seriously argue that we're not getting what we need," he said. "It's the cream of the crop."

The oral exam, taken only if the written one is passed, is a daylong grind that provides important clues about a candidate's personality and ability to communicate and interact. It begins with a question-and-answer session during which two veteran Foreign Service officers grill a candidate for 45 minutes about political, economic and cultural issues, past and present. Then the questioners pose theoretical diplomatic problems that the candidate must solve on the spot.

"Just tell us what you know," Richard H. Williams instructed a group of a dozen well-scrubbed, white-knuckled candidates waiting to take the exam one morning at the Rosslyn testing center.

A few minutes later, Candidate A, a woman in her early 20s, was summoned before the tribunal. In the interests of impartiality, letters are often assigned, although the candidates' names, but never their scholastic, job or personal backgrounds, are sometimes known to the examining panel.

"Tell me," the woman was asked, "what are some of the areas of agreement and disagreement between the U.S. and the U.S.S.R.?" After swallowing hard and coughing nervously, she began: "Well I've spent some time in the Soviet Union and as far as agreements are concerned, well, I don't think there really are very many and well you know, the Americans feel that the Soviets have the advantage right now and the Soviets are pushing and always feel they have to catch up."

She paused. Her inquisitors remained silent, wanting to see how she would handle herself. Finally, she resumed: "I don't think that Andropov is going to compromise on anything, because he's just in power and he wants to show the Russians that he's strong." She continued along general lines for several minutes but never really addressed the question.

She did better on the second query: "What are the main domestic problems facing the U.S. today? Discuss one of them in detail."

"Obviously," she began confidently, "the economy is our main problem. The problem was created by inflation, brought on by bad budgetary practices, and by a falloff in productivity, a

changing marketplace, among other things." The inquisitors next asked about American arts and institutions, over which she stumbled somewhat. Then came several questions dealing with hypothetical situations abroad.

"You are an embassy administrative officer in a Middle East country where there is a lot of anti-Americanism, a number of radical groups and mobs," one of the testers hypothesized. "What do you do?"

Once again, Candidate A was off and running. "I'd tell our personnel to travel only as necessary, and then only in groups," she said. "They should stick close to the embassy compound. But before I'd evacuate anyone, I'd do everything possible. I might put a high fence around the compound. I'd tell our people to watch out for booby traps, particularly in cars. And I'd always keep an eye peeled for a mob coming my way."

After she had been dismissed, a panel member said, "Some of the questions obviously don't have 'right' answers. We just want to see how they handle things."

The remainder of the morning was taken up with specialized exercises, including an analysis of a press conference by Secretary of State George P. Shultz. After a lunch break, the candidates were divided into groups of six and instructed to determine which agricultural, educational and urban-aid programs an embassy in a theoretical country should finance from a \$50,000 budget. The aim of the exercise was to uncover leadership skills and the ability to establish good working relationships.

The Stockman Factor

Minutes before the exercise was scheduled to end, the candidates were suddenly informed that "budget director David Stockman has gone berserk again, and so instead of \$50,000 to spend, you have only \$38,000." Most groups speedily compromised and eliminated or severely cut projects that did not virtually guarantee a return of good will for the United States.

By then, it was late afternoon. The candidates were tired and tense. But there was still one more test — "The In Basket," designed to test managerial skills and problem-solving ability. Each candidate was handed a thick packet of memoranda, letters, suggestion slips and queries, all typical of the paper flow in an American embassy, and given 90 minutes to organize the contents — to answer, pass on or ignore.

At the end of the day, Richard Williams told the exhausted candidates that they would be hearing something within the next two to six weeks. "The people who fail get the word first, in a thin envelope," he explained. "If you pass, you get the word later, in a fat envelope, filled with forms and requests."

Those who make it past the oral exam submit their school transcripts and a 1,000-word autobiography, after which they undergo a physical exam and a security check. Four Foreign Service officers then individually review each dossier, evaluating personal background such as education, jobs or volunteer experience. In the final determination, the most weight — 52 percent — is given to the oral exam; written tests are rated at 24 percent, as is personal background.

Embassies Losing Status

The Foreign Service has 3,850 officers, some assigned to the State Department in Washington, but most serving in 234 embassies and consulates scattered in 133 countries around the globe.

With world leaders now routinely using communications satellites and special emissaries to conduct diplomacy, embassies are sometimes reduced to the status of glorified message centers, their diplomats transformed into frustrated supernumeraries. And as domestic and foreign interests, particularly economic matters, have become more and more intertwined, other government agencies have begun to usurp some traditional Foreign Service roles. Most embassies now contain more commerce, agriculture, military, intelligence and information specialists than Foreign Service officers. What ripples career diplomats even more is that these specialists often move up the promotion ladder more rapidly, with many reaching the top posts in their agencies a full decade ahead of their diplomatic colleagues.

Then, when a Foreign Service officer is at last poised for an appointment as an ambassador or an assistant secretary of state, some presidential appointments are questionable diplomatic credentials is likely to snatch away the plum assignment. The Reagan administration ranks close to the top of the historical range of political appointments, with a 41 percent rating, the average since 1946 being 36 percent. Jimmy Carter had a 27 percent rating and John F. Kennedy 42 percent.

Young diplomats can, and do, of course, leave at any time to join large international firms where even entry-level salaries are often half again as high as the Foreign Service starting range of \$18,700 to \$25,800, depending on such factors as job experience and educational background. Big business is also more settled, generally less nomadic and more given to the predictable, the logical. Certainly it is safer, as the recent bombing of the U.S. Embassy in Beirut sadly demonstrated, and now more names have been added to the bronze memorial wall in the State Department's main lobby.

"Years ago, there was the big fear for Foreign Service officers," said John Spratt, the Foreign Service Institute's deputy director. "As



In a mock jail cell at the Foreign Service Institute outside Washington, two trainees, Laurie Lerner, right, and Gilbert

Sperling, simulate a U.S. Embassy official counseling an American tourist imprisoned in the hostile country of Z.

late as the 1950s, we lost a couple of officers to some strange fever in Africa. But now the great danger is violence. Seems like we're always evacuating someone from one overseas post or another."

But still the diplomatic candidates come.

"The hardships and risks go with the job," said Paul T. Bagatelas, 20, who plans to take the exam this December, midway through his junior year at Georgetown's School of Foreign Service. "Look at it this way: You can work for a bank who can represent your country, all 234 million of its people."

While altruism motivates some, others have dreams of power and glory. Still others seek experience that can later be parlayed into jobs in the academic world. Some grew up in an international environment and want to remain in it. But as much as anything, most candidates seem to be driven by the very uncertainty that their timid souls consider a drawback: change, crisis, involvement. A recent discussion with several trainees, since assigned to posts overseas, elicited a variety of reasons.

"I grew up in the middle of the country, never saw an ocean," explained Jon Mark Aloisi, a 27-year-old graduate of the University of Michigan now serving in Guadalajara, Mexico. "That early isolation is all part of this for me. I was also affected by Watergate a whole lot. At first I decided I wanted to teach, to shed some light. But then I decided that what I'd really like is to become one of the hotshots in the State Department on the Chinese."

Does he have any fears? "I worry about all the entertaining I'll have to do, about security, about the boredom of working the visa line," Mr. Aloisi confessed. "But once of that is anywhere near enough to deter me."

Randall Biggers, 30, of Roswell, New Mexico, now serving in Belize, said that he had always been fascinated by anything distant. After attending the University of New Mexico, he served in the Peace Corps in Afghanistan, and that experience led him to the Foreign Service. "I want to make some kind of impact with my life, on a big or small scale. I guess some of us are looking forward to living in Vienna or Paris. But I'd be just as happy to spend my days in the Third World as a consular officer if I could help more people that way."

Judith Cefkin, a 30-year-old Coloradan now at the U.S. Embassy in Mexico City, said that years of living abroad with her parents and as a student had whetted her appetite for travel, new faces, new challenges. After graduating from Smith College in Massachusetts, she tried journalism but found that she wanted to shed some of her detachment and become more deeply involved with the major issues of the day. "I was pulled toward the Foreign Service," she said. Asked if she had any apprehensions, Miss Cefkin said, "I wonder what I'll do when I have to speak up for American policies that I don't agree with."

New Orientation Course

Until a few years ago, the orientation course given to new diplomats consisted primarily of lectures on the Foreign Service, its traditions, discipline and ethics, how it was organized, how it works, how to do this job or that. The current curriculum covers the same material but does so through simulated situations and crises, such as trying to negotiate freedom for an American tourist jailed in the unfriendly land of "Z."

The initial six-and-a-half-week training is followed by five and a half weeks of consular training. Because consular work, despite its rou-

ture, is a major element in the day-to-day operations of any embassy, every new officer, whatever his or her cone, spends at least the first six months of diplomatic life as a consular.

Before they can gain tenure, a relatively new quality control device, Foreign Service officers must become proficient in at least one foreign language. That training, which takes place either in the field or in Washington, can take up to five and a half months. It, too, relies to a certain extent on role playing and simulated environment. "You learn the words and usage that you will run into in your line of work," said Stephen Low, the institute's director and a former ambassador. "We skip the detailed grammar. A lot of the time, we teach as though you were at your post abroad, talking to a businessman or politician. We're setting the standard in the U.S. for this kind of instruction."

The diplomats in training also attend seminars at centers in nearby Virginia and West Virginia, where for two and a half days they simulate every aspect of an embassy's operation. Their instructors, all veteran Foreign Service officers, alternately praise and goad, pushing and stretching to get the maximum performance. "The tougher and more realistic the training is back here in the States, the fewer surprises the new guys are going to run into overseas," said James H. Morton, who runs some of the seminars.

When the new diplomats are at last sent abroad, their first post is likely to be less than desirable. And though Paris and London may be down the line sometime in the endless polling up of roots and repotting every two or so years, it is more likely that the next assignment will be to yet another climactic hellhole that will stretch body and soul and family relationships to the breaking point.

In all, from the hour of swearing in as career trainees, new Foreign Service officers have four years in which to learn their skills and to display them in the field. If they do not become sufficiently proficient within that period, they will be dismissed. Of the new officers inducted this year, about 10 percent will not make the cut in 1987, either because they will drop out on their own or will be asked to resign. If they acquit themselves creditably, they will be granted tenure. Only then will they be trained in more substantive and satisfying aspects, such as policy-making and negotiating. Mid-career training is also being upgraded and intensified.

Tight Relationships Formed

"Much as military recruits are drawn together in boot camp, participants in Foreign Service Institute simulations gain a sense of shared experience and esprit," said Katherine H. Peterson, an instructor. It is during these sessions that today's version of the State Department's old-boy network begins to take form.

Consider: When the time comes to hand out first overseas assignments to new trainees, each class is given a list of consular slots currently open. Each trainee puts down for eight slots. Some trainees go for comfort, some for the exotic, some for a hellhole where the staff is so overworked that the lowest new consul also gets experience as a political or economics officer and, in spare moments, as an administrator.

But when the list of slots available to a recent class showed an opening in India, no one put down for it, although more than a dozen of the 24 trainees wanted it. Why? Because the husband of one of the trainees had just taken a job in India. If no one else bid on that slot, she was almost certain to get it.

She did.

But first there were the simulations of what

the class might encounter in the field. In these re-creations, diplomats-in-training learn the ins and outs of passport service, how to issue visas or — more important — how to refuse them, as well as how to draft memoranda, telegrams, letters and recommendations to the State Department.

A trainee's judgment and common sense are continually being tested, typically by another trainee who might pretend to be a coffee exporter or in quest of a businessman's visa when, in fact, careful investigation and questioning would reveal him to be a narcotics dealer.

"The idea is to make it as real as possible," said Kirk-Patrick Kotila, one of the instructors. "They're going to be out in the real world soon enough. People lie out there."

Realistic Jail Scene

The mock jail scene in the unfriendly, make-believe country of Z, in which trainees assume roles in an episode between an imprisoned American tourist and a visiting consular officer from the nearby U.S. mission, is particularly realistic. The cell, a dingy cubicle with bars on the door and a single light overhead, is smeared with graffiti in many languages.

Sitting at the cell's bare table one morning recently, hands cuffed together, was Jay Wakamatsu, a Foreign Service trainee since posted in Katmandu. He was playing the role of a jailed American, complaining of beatings and torture by his jailers.

"Oh, it's been awful, just awful," he cried out in his best stage anguish, rattling his manacles in the face of the "American consul," Michael Hebert, a trainee now in Bombay. While hiking through Z, Mr. Wakamatsu said, he ran into a girl, posed with her for a picture, and was immediately seized. Unknown to him, in the background there was a military installation, the photographing of which was forbidden.

"We've got to convince the minister of the interior that you're just an innocent American tourist," Mr. Hebert said in his most consoling voice.

"No! No!" Mr. Wakamatsu interjected desperately. "Telling them I'm an American and that I'm innocent will just lead to more beatings."

"I'll try to get them to stop the beatings," said Mr. Hebert. "I'll get you some medical care. We'll do all we can. Just hang in there. Hang in there."

After a few more minutes of dialogue, there was a critique of Mr. Hebert's handling of Mr. Wakamatsu.

"Good! Good!" said Pamela Hunt, the instructor, herself a veteran consular officer. "You were right to encourage Jay to tough it out. Always help the prisoner to be strong. Tell him the weight of the U.S. government is being used in every way possible. But don't make specific promises, don't get hopes up unnecessarily. Consular officers aren't all-powerful. But it was good show, a good show."

But how well does it work when the newly trained diplomats actually face the real thing? "This is something that's hard to measure, but we get good feedback," said Stephen Low, the training institute's director. He cited a report from a young consular officer at the embassy in Beijing who as one of his first duties had to go to a Chinese jail to counsel an American woman being held on suspicion of spying. The jail scene in the simulation back in Rosslyn, he said, proved to be "very helpful and reassuring." After passing so many preliminary tests during his training, the young consul had finally passed his first in the field.

Fraud and Violence Mar Nigeria's Latest Tussle With Democracy

By Leon Dash

Washington Post Service

Lagos — President Shehu Shagari's recent landslide victory has dramatically changed the face of Nigerian politics, but the numerous cases of vote rigging and violence have left a lingering note of discord for the country's future.

Mr. Shagari's re-election was virtually unchallengeable because of his victory margin of more than four million votes over his nearest competitor and his ability to make deep inroads into the regional ethnic bases of his two main rivals.

The elections underscored Nigeria's commitment to civilian democracy. But marred by Mr. Shagari's victory and the subsequent elections for state governorships, state assemblies and both houses of the National Assembly were the violence and the often obvious falsification of election results by agents of all six parties in collusion with local officials of the Federal Electoral Commission.

The harshest allegations have been made against Mr. Shagari's National Party of Nigeria for allegedly using its incumbent position to substantially expand the victory at all levels of the government. Independent Western sources in Lagos said Mr. Shagari would probably have won anyway without that help, but not by such a wide margin.

The polling malpractices in the five elections, which ran from Aug. 6 to Sept. 3, sparked rioting and killing in three states — in a number of instances with victims being burned alive.

Because Nigeria has an estimated population of 100 million and is black Africa's largest and richest oil exporter, what happens here has a wide impact on the continent. One of every four Africans is a Nigerian. The country's four-year fledgling effort at multi-party democracy, therefore, is expected to eventually influence other African governments, most of which are one-party states or military dictatorships.

Mr. Shagari was first elected in 1979, taking control from a military government that had ruled Nigeria through 13 years of turmoil. The army overthrew the country's first civilian government in 1966, six years after independence from Britain, after vote rigging by politicians and government officials prompted rioting and a breakdown in law and order among the Yoruba people in southwest Nigeria.

That first coup led to a counter-coup, a tragic, two-and-a-half-year civil war, a third coup and a bloody attempted coup before Nigeria returned to civilian government.

In this year's voting, Mr. Shagari, 58, proved to be more popular than his National Party of Nigeria. A lot of politicians running under his party's banner benefited from a "bandwagon" effect in the four elections that followed Mr. Shagari's victory, according to Western diplo-

matic sources. National Party members now hold the governor's seat in 11 of 19 states (up from seven) and have absolute majorities in both houses of the National Assembly (up from less than half in each).

Mr. Shagari's successes against his two main rivals, Obafemi Awolowo, 74, and Nnamdi Azikiwe, 78, have helped him emerge as a truly national leader despite the Hausa-Fulani heritage of his northern Nigerian homeland. Mr. Awolowo has been reduced to a regional Yoruba leader, and Mr. Azikiwe, Nigeria's first elected president, has been relegated to an even smaller role, comparatively, among his Ibo people in eastern Nigeria.

Mr. Shagari's low-key and humble style of governing in his first four-year administration clearly met with widespread approval among the electorate. Among a field of six candidates, Mr. Shagari polled 48 percent, or 12 million votes, of the 25.8 million votes cast. His nearest rival, Mr. Awolowo, received 7.8 million votes, and most of those came from the densely populated Yoruba states.

Together, the Hausa-Fulani, the Yoruba and the Ibo make up 60 percent of Nigeria's population. The rest of the population is formed from about 250 ethnic minorities, which are fearful of dominance by any of the big three. Mr. Shagari, however, clearly received their vote of confidence.

The National Party's sweep of the seats in the

governors' races and the National Assembly means that it is now a national party and no longer a vehicle of the Hausa-Fulani, as it was viewed as being at its creation in 1978. The strains of accommodating all of its adherents should prove to be strenuous in the coming years, particularly in a time of economic austerity with substantially reduced oil exports.

Both Mr. Awolowo's Unity Party and, to a greater degree, Mr. Azikiwe's Nigerian People's Party are expected to drop into small, regional roles. A fourth party, the late Aminu Kano's People's Redemption Party, has held onto control of only one state and will play a marginal role in the immediate future. The other two parties won only one seat in the House of Representatives between them, and that victory is under court challenge.

"It is possible that Nigeria is headed for a two or three-party system," said a Western diplomat. The Unity Party and the Nigerian People's Party "may end up combining themselves into one to present an opposition to Shagari's party," he added.

Odumegwu Ojukwu, the former Biafran civil war leader, who returned from exile a year ago after receiving a presidential pardon, may have accounted for Mr. Shagari's strong showing in the Ibo heartland of Anambra and Imo states. Mr. Ojukwu joined Mr. Shagari's National Party and ran for a Senate seat.

Mr. Ojukwu initially lost his Senate race, but an Anambra state high court overturned the

result in mid-September, citing the erection of false polling booths and the fraudulent inflation of figures as the cause of Mr. Ojukwu's defeat.

The rioting, arson and killing of political opponents broke out during the elections in reaction to suspect returns announced by the Federal Electoral Commission. At least 100 people died in the violence and hundreds were arrested.

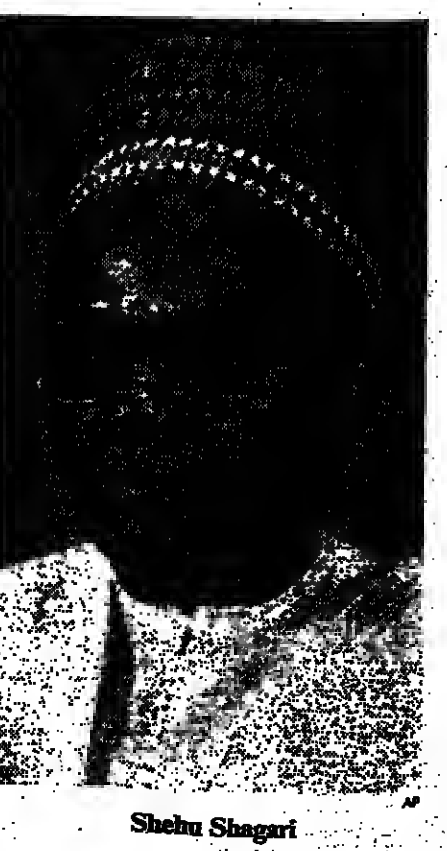
The challenged results are just beginning to come out. Judicial panels overturned the National Party victories in the gubernatorial races in Onitsha and Anambra states as fraudulent and split three-to-two in upholding the National Party's taking of the governor's seat in Oyo.

Many Nigerians took partisan positions on the voting fraud, blaming parties other than the one they supported.

But perhaps most revealing about the widespread electoral abuses was a statement released in mid-September by the police commissioner in Onitsha, Dabup Dabup. Among the 451 persons arrested and charged with election violations in Bendel, Mr. Dabup said, were officials of all six parties plus officials of the Federal Electoral Commission.

Neutral diplomatic sources said all the parties had been involved in the election fraud.

"So much so," added one, "that, except in some of the most blatant cases in state elections, one has the impression that all of the rigging was so widespread that it canceled out the final totals."



Shehu Shagari

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Raw materials and finished products from Hershey Foods, left; at right: a Latin American coffee sorting plant.



High Growth, New Technology Lead Toward Global Markets

By Sharon W. Walsh

WASHINGTON — World commodities markets had no problem maintaining their separate identities in the past. From the raucous energy of the Chicago exchanges to the comparative gentility of those in London, their personalities have been as different as their trading rules and contracts.

But in the last year, while the markets have kept their distinct personalities, they have moved closer to becoming world markets by forming technological links with one another and trying to devise compatible contracts.

The incentive for these links was provided in part by the tremendous growth the markets experienced. In the first seven months of 1983, the total number of futures contracts traded in the United States alone was more than 79 million, or nearly 30 percent more than in the same period a year ago, according to the Futures Industry Association, the trade association for traders and brokers in the United States.

In the new world of options trading, which allows the holder to buy or sell a specific quantity of a commodity at a set price and time, 1.2 million contracts changed hands. On the fledgling London International Financial Futures Exchange (LIFFE), the millionth contract was traded in August, only 10 months after the exchange opened.

As a direct result of this growth, "one of the most exciting things to happen in the last five years" in commodities happened, according to Leo Melamed, special counsel to the Chicago Mercantile Exchange and a leader in establishing financial and foreign currency futures markets. The Chicago Mercantile Exchange and the Singapore Gold Exchange agreed, in principle, to establish in Singapore a financial futures exchange. The exchange would allow trading of contracts identical to the Chicago exchange's gold, Eurodollar and currency futures.

Besides connecting world markets, the agreement is one more step toward establishing around-the-clock commodities trading. If the link is successful — and Mr. Melamed expects approval of the agreement from the Commodity Futures Trading Commission by the end of the year and the start-up of trading by the spring of 1984 — the Chicago exchange will try for a similar deal with LIFFE in London, Mr. Melamed said.

The accord between the Chicago and Singapore exchanges has the advantage of allowing traders for the first time to initiate trades on one side of the world and to offset them on the other without waiting for the next trading day.

It is an advantage that has not been overlooked by other exchanges in the competition for investors. Hong Kong, which has been competing with Singapore for its own financial futures market, has been investigating a joint agreement with LIFFE or other established exchanges. And the New York Commodity Exchange, COMEX, has created a panel to look at lengthening its trading hours in gold bullion futures, now 9:25 A.M. to 2:30 P.M. Eastern Standard Time (14:25 GMT to 19:30 GMT), by adding an 8 p.m. to midnight Eastern Standard Time trading session in response to the Chicago-Singapore deal.

Still, Mr. Melamed said that the markets are a long way from internationalization of commodities trading, perhaps as much as five years away.

David Yeres, a commodities attorney with Cahill, Gordon and Reindel in New York, said: "Internationalization was not really an event of the past year.

There has been the promise of internationalization. But the present discussions are, for the most part, just discussion."

One expected step toward drawing the markets together that did not come to fruition this year was the start-up of the International Futures Exchange, or "Interx." The first all-computerized exchange, Interx was to have opened in the spring of 1982. The opening was postponed until September of this year, then the Bermuda-based exchange delayed its opening again.

Eugene M. Grummer, the exchange's president, recently said that he could not specify a start-up date for the new exchange.

In early September, Mr. Grummer said that he was negotiating with a publicly held corporation to help manage and to provide an infusion of venture capital for Interx. The exchange reportedly ran up against financial difficulties when additional software was needed for the complex computer system that would offer instantaneous execution and confirmation of trades from all over the world.

Mr. Grummer said that when Interx opens, first with gold futures, then with U.S. Treasury bond trading, it will provide a necessary marketplace for international traders. The advantages he cited of such a market include trading hours that are 25-percent longer than now available to traders, an international marketplace, the immediate confirmation of trades and the tax-exempt status of offshore trading.

The growth of commodities trading necessitates such an exchange. "Producing and consuming nations are learning to use markets as hedging devices. And as that growth comes, a portion of trades must be handled by electronic capabilities," he said. "Eventually, our machines will be accessible worldwide for traders whenever markets are open."

With the Chicago-Singapore proposal, that could be 24 hours a day by next spring.

As technology, longer trading hours and agreements for common contracts brought world commodities markets closer over the last year, there also were factors at work bringing the commodities and securities markets closer.

The incredible surge in U.S. securities markets volume created the need for new instruments to allow investors in the stock market to hedge their holdings. The commodities markets offered such instruments in the form of stock index futures and stock index options. Previously, an investor could hedge his stock holdings only by buying stock options on individual companies. However, the new index futures are based on a basket of companies and allow investors to protect their portfolios against any instability in the securities markets.

Mr. Melamed called the events that gave rise to the popular stock index contracts "clearly a most significant event in the commodities markets." Yet, he pointed out, the indexes are just beginning to be accepted as futures markets vehicles.

As commodities exchanges raced to offer contracts based on new stock indices, they became new competition for the securities markets. The securities markets, recognizing the importance of the competition, also wanted to be able to offer investors these new vehicles.

In two separate agreements, securities and commodities exchanges granted their members access to each others' markets in index options and futures. The first pact was forged by the Chicago Board Options Exchange, which trades options based on securities,

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New London Exchange Will Alter Crude Oil Scene

By Patrick Donovan

LONDON — The trading in crude oil futures on London's International Petroleum Exchange, due to begin in November, is likely to make a considerable impact on the world of crude trading.

Not only will this establish London as the only crude futures trading center outside the United States, but the move also promises to jolt new life into its recently formed rivals in New York and Chicago.

The New York Mercantile Exchange and the Chicago Board of Trade both opened up for crude futures trading in March of this year, and the International Petroleum Exchange will be joining them in this untired and untested market.

While all three energy markets have dealt with heating oil futures, traders have been wary of investing in forward crude buying.

On the surface it is hard to understand why. The constant uncertainties of the spot oil price and the continued in-fighting within the Organization of Petroleum Exporting Countries make energy price predictions a chancy business. The futures market, by contrast, offers traders an oasis of security by allowing them to hedge their risks buying and selling deliveries at a previously agreed price.

At the same time, the opportunities for forward crude buying until now have been confined to the United States and form only a small part of a larger market. If the natural wariness of the international oil industry — oil traders, oil company executives, buyers and sellers — also is considered, it is easy to see why both the New York and Chicago exchanges have enjoyed but modest success so far.

The International Petroleum Exchange could change all this. Not only would the new London exchange form the natural outlet for North Sea crude, but the exchange's management also is keen on seeking to "internationalize" the oil futures market by dovetailing its own operation with those in the United States.

The net effect could stimulate activity in all three markets by making crude trading more attractive to those seeking a wide international market for crude purchases.

Peter Wildblood, secretary of the IPE, said that the three markets will complement one another as the London and U.S. centers will operate in different time zones. "This will have the effect of broadening the opportunities for industry," he said.

On the other side of the Atlantic Ocean, Mary Lee Fox, marketing director for the New York Mercantile Exchange, agreed: "The arbitrage possibilities between the two markets are beautiful. There are no elements of competition between the two markets," she said.

The London contract will deal in U.S. dollars and units will be for 1,000 barrels with sweet North Sea Brent as the marker crude. There also will be an alternative sour crude option for Far East delivery, further extending the scope of the London exchange in the international oil market.

IPE management and members talk of extending operations into other crude markets and have been closely studying the Far East. Daniel Carr, director of the London-based Premier Man Ltd., a major oil futures brokerage company, said that the Singapore government is keen on establishing an energy market and "IPE might expand to Singapore if crude trading in London goes very well to deal in sour crude which is more demand in the East." Mr. Carr said, however, that the question was "very hypothetical."

Whether the London market generates this kind of success remains to be seen. Both the New York and Chicago exchanges remain confident of oil futures' ultimate success, although their current record is perhaps less buoyant than had been expected.

The U.S. contracts are based on lots of 1,000 barrels of West Texas sweet crude, with some variations in specifications. Analysts expect some growth in the markets although, in general, expansion is anticipated to be "steady but unspectacular."

One noticeable trend has been that the New York Mercantile Exchange is doing markedly better than the Chicago Board of Trade. Since the March opening, New York has seen a daily activity of around 600 to 1,000 lots, while the CBOT is averaging around half that level at 400.

The United States continues to have the lead in another important area of oil futures: gasoline.

The NYMEX started trading in leaded gasoline contracts in October 1981; CBOT broke into the field in December 1982. Market activity continues to be fairly lively with New York turning around 1,000 lots a day and with Chicago, lagging well behind, 200 to 300 lots.

London's International Petroleum Exchange already has a gasoline contract written up and hopes to launch it over the coming year. An exchange spokesman would not give a definite date because, he said, the IPE wants to bring through its crude contract successfully before launching out into other areas. "It will almost certainly be our next market," Mr. Wildblood said, adding that the exchange also is looking at other areas of energy futures, such as the coal market.

For all three centers, however, gas oil, or No. 2 heating oil as it is called in the United States, continues to be the No. 1 staple trade for these young markets.

The New York and London exchanges have emerged as the contenders, while gas oil activity has slumped on the Chicago exchange. First opened in 1978, the NYMEX now is averaging a daily rate of 7,000 to 8,000 lots, or about three times the level of trade on the IPE, which opened its doors for gas oil trade in April 1981.

While considerably more established than crude and gasoline trading, however, gas oil trade lacks a significant level of oil company support, according to a recent market study on the IPE.

Joe Roeder and Associates, an oil consulting firm based in London, reckon that about 80 percent of the business on the IPE comes from traders and only 2 percent of the deals from refiners.

Another interesting trend uncovered by the study, which also could be a pointer to the likely development in the London exchange's forthcoming crude contract, is that the exchange's U.K.-based trade is declining in favor of contracts with the United States. During the first year of gas-oil trading, trade with U.S. sources more than doubled from 4 percent to 10 percent of total activity.

Stock Index Futures Catch Fire Amid U.S. Bull Market

By Sharon W. Walsh and Randall E. Moore

WASHINGTON — With a major assist from a record-setting bull market in U.S. securities, stock index futures caught fire during the last year, becoming the hottest and fastest-growing commodity contracts ever traded.

Although introduced in February 1982, trading did not take off until the summer of 1982, when U.S. securities shook off a decade of doldrums and soared to record-setting levels. Since then, these innovative contracts have come to account for about 10 percent of total activity in U.S. commodity markets. In markets long dominated by agricultural interests, the Chicago Mercantile Exchange's Standard & Poor's 500 Index now leads all other contracts in trading volume.

Even compared with the rejuvenated securities markets, trading volume in stock index futures is impressive, with the underlying value of such contracts regularly exceeding \$5 billion a day.

The contracts are broad measures of securities market performance based on a basket of underlying securities and compiled by Value Line, Standard & Poor's and various exchanges. Each contract represents an obligation to buy or sell a hypothetical portfolio of all the stocks covered by an index at a given price and date. Because some of the indexes on which the futures contracts are based consist of more than 1,000 stocks, actual delivery is in cash, however.

Regulatory acceptance of cash delivery made stock index futures possible. Traditionally, futures contracts required delivery of the underlying commodity. It would have been virtually impossible, however, for investors actually to purchase the 1,700 stocks represented in Kansas City's Value Line contract to make delivery.

"Cash settlement, rather than delivery in kind, opened the door to things that were never before possible," said Leo Melamed, special counsel to the Chicago Mercantile Exchange and chairman of the Dellshor Investment Co. "It is the big breakthrough of this era."

Introduced in Kansas City, stock index futures now are traded in Chicago and New York City as well. Regulators have approved 16 such contracts. Others, covering only the stocks of specific industries, such as computer stocks and energy stocks, await approval.

Hoping to duplicate the success of U.S. exchanges, officials in Asia and Europe are considering the introduction of such instruments on their exchanges.

Despite phenomenal success already, brokers generally believe that the market for stock index futures is largely untapped. Of the 32 million Americans who own stock, only a small percentage have taken the plunge into these new investment vehicles. A potentially even greater market, the large institutional investors who dominate securities markets, have just begun to use stock index futures.

Portfolio managers are beginning to put these instruments to use, according to Mr. Melamed. "Actual use of stock index futures is still in the very formative stages," he said.

What is the attraction of these instruments? For the individual investor, it is the ability to play the stock market without owning a single share of stock. As a result, the speculator who believes that the overall trend of the market is upward, but who does not feel confident in selecting individual stocks, can participate in the market's gains. Commissions charged by brokers are less in futures than in stocks.

Perhaps the biggest attraction is the highly leveraged nature of futures. To buy or sell a stock, an investor must put up a minimum margin equal to 50 percent of the stock's value, far more than the 7 to 8 percent required for a stock index futures contract. Such high leverage can

(Continued on Following Page)



A Brazilian agriculture workers sprays a coffee plantation.

Singapore-Chicago Link: First Step Toward 24-Hour Trading

By Laurie Cohen

CHICAGO — Where the Chicago Mercantile Exchange leads, other futures markets will follow. That is what commodity experts said this summer, following the Chicago exchange's announcement of a planned link with the Singapore Gold Exchange.

The Chicago-Singapore connection is expected to pave the way for international partnerships between other exchanges and ultimately for 24-hour futures trading. "I think what the Merc is doing is a sign of what is to come," said Thomas Russo, a New York commodities lawyer.

The timing of the next global futures connection depends largely on how the Singapore venture fares. But other exchanges — in the United States, Hong Kong and London — are watching closely the developments at the Chicago Mercantile Exchange, while strengthening their own international ties.

Rival markets also are eagerly awaiting U.S. regulators' response to the link. The Chicago Mercantile Exchange's experiment raises a host of new regulatory issues, including how to protect U.S. customers who deal in Singapore and how to ensure that the linkage does not threaten the operations of the Chicago exchange.

"I am wondering what the regulatory attitude will be," said John Treat, president of the New York Mercantile Exchange. "The question of extrajurisdictionality will be very tough."

The Chicago Mercantile Exchange plans on Tuesday to submit a formal proposal to the Commodity Futures Trading Commission in Washington, and

brief the agency's staff on the link. After its scheduled opening in the second quarter of 1984, the Singapore market is slated to trade futures on gold, a Eurodollar instrument and possibly Japanese yen.

The Chicago-Singapore plan is revolutionary because it calls for "mutual offset" between the Mercantile Exchange and a reconstituted Singapore exchange. That means that a trader could establish a position in Chicago and take it off in Singapore, or vice versa.

A growing number of U.S. brokers are offering 24-hour futures trading services, but these are largely aimed at professional traders and employ foreign dealer markets rather than futures markets. "This will be more attractive because you will not be going back and forth from futures to physicals," said Arthur Hahn, president of Chicago-based Rouse Woodstock Inc., a subsidiary of Mercantile House Holdings of London.

The close connection to be set up between Chicago and Singapore prompted the Mercantile Exchange to require more stringent regulations than those previously mandated by the Monetary Authority of London.

"If a major firm of theirs were to fail, there will be a common bond," said Leo Melamed, special counsel to the Mercantile Exchange. "What if the firm could not take care of the loss and had positions over here? It would obligate the Merc to fund the loss."

To prevent this, the Chicago exchange required that financial obligations for Singapore clearing members be comparable to those for Chicago clearing members and that customer funds be segregated, or held in a

separate bank account from the trading firm's own funds.

Other regulatory issues are certain to emerge. "There are considerations relating to what kinds of protection people in this country exercising [trades] via the linkage have" under U.S. commodities laws, said Susan Hillis, acting chairman of the Commodity Futures Trading Commission.

It is unclear, for example, what recourse, if any, under U.S. laws a U.S. customer who is unsatisfied with a trade execution in Singapore would have. Last year, the U.S. Congress said that the Commodity Futures Trading Commission could regulate the domestic sale of foreign futures contracts, but the scope of this power has not been determined.

If the link succeeds in expanding the amount of Far Eastern business flowing to Chicago, it could heighten the controversy over disclosure of trading positions by foreign market participants. After the 1980 silver market debacle, the regulatory commission adopted rules that allow the agency to order brokers to turn over the desired material, but they have not been tested.

"The basis for our regulatory concern would be how what happened in Singapore might affect the trading and the integrity of the Mercantile Exchange itself," said Ted Urban, deputy director of the CFTC's trading and markets division. "If it is structured right... I do not see any insurmountable problems."

Chicago Mercantile Exchange officials believe that their biggest problem will be attracting sufficient business. "It is the same kind of challenge if one wanted to

start a new exchange in Denver," Mr. Melamed said. Exchange officials emphasize that they will have to wait five years to see the results of their investment, which will amount to \$1 million by the time the Singapore market opens. "We do not see Singapore leading to major increases in our trading volume any time soon," said Clayton Yentzer, president of the Chicago Mercantile Exchange.

Rival exchanges profess skepticism. "Where is the floor trading community going to come from? Are Chicago traders going to trade there during those hours?" asked Alan Brody, president of the Commodity Exchange, or COMEX, in New York.

Still, the COMEX is one of several exchanges that have been talking to overseas markets. As an alternative, the New York exchange also is studying the feasibility of substantially expanding its own trading hours, an option that both the Mercantile Exchange and Chicago Board of Trade have apparently rejected on the grounds that it would be too hard to staff an all-night operation.

The New York Mercantile Exchange, the main energy market in the United States, has discussed the possibility of a mutual offset arrangement with London's International Petroleum Exchange, although nothing firm has developed. "I am quite interested to see what materializes" between Chicago and Singapore, Mr. Treat said.

Meanwhile, the Chicago Mercantile Exchange is looking to the London International Financial Futures Exchange as its next logical partner on the road to 24-hour trading.

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Sugar, Cocoa Prices Volatile While Coffee Remains Stable

By James J. Bowe

NEW YORK—The coffee, sugar and cocoa markets have been affected by a number of different supply and demand forces during 1983. While coffee prices were relatively stable due to International Coffee Organization efforts, sugar and cocoa prices moved substantially during the year. And the outlook for the future is far from stable as new factors that may impact upon prices continuously arise and the relationship between the world production and stocks of these three important commodities continues to change.

In the beginning of 1983, prospects for an active sugar market were dim as there was considerable sugar stockpiled in excess of world demand; prospects for another

year of excess production were considered bright by the majority of the trade. As a result, spot prices traded in what is considered a fairly narrow range between 6 and 7 cents — although the range from high to low represented more than a 16-percent change in value of the contract — for the first quarter of 1983.

In early April, we saw projections of a possible balance in global production and consumption for the 1983-1984 sugar crop year. Later in the month, specific reports of weather difficulties in Cuba, Europe and South Africa caused prices to go higher. By late May, the spot price for the No. 11 Contract exceeded 13 cents a pound, nearly double the price at the end of March.

On five days during May, sugar futures prices traded to the 0-cent limit and, according to exchange rules, the daily permissible price fluctuation limit was expanded to 1 cent. We continued to see wide swings in price as the market tried to anticipate the effect of global weather on the 1983 crop.

Since May, we have seen prices decline somewhat — back to the 10- to 11-cent range, but the market has continued to experience significant volatility. Clear indications of the market's movement are the wide range between high and low weekly prices over the last few months, and the change in open interest and volume for the Sugar No. 11 futures contract traded on the Coffee, Sugar & Cocoa Exchange in New York.

Open interest was at 52,463 on Sept. 1, 1982. By the beginning of 1983, open interest had increased to more than 64,000 and currently stands at 94,245. This large increase in the number of open futures contracts shows that a widespread interest in the course of the price of sugar has come about. Volume in the futures market also has been considerable as the first eight months' volume for sugar futures equaled 2,311,024, against 1,430,806 contracts traded for the like period in 1982.

Cocoa market price activity also has been dramatic for the first eight months of 1983, as we have seen the price range from less than \$1,600 per ton in January to more than \$2,400 in August. Cocoa is another market beset by supply-side influences. The world's largest producing country, the Ivory Coast, experienced significant weather problems early in 1983, with

drought and brush fires in the cocoa-producing regions.

Ghana cocoa production is expected to reach a post-World War II low as many farmers, claiming an unsympathetic attitude on the part of their country's marketing board, have abandoned cocoa production. With world cocoa consumption expected to be 1.6 million tons in 1983, the potential loss of 10 percent of production would mean a serious lessening of world stocks.

The 1982-1983 crop year will show the first deficit in cocoa production since 1976-1977, when prices peaked in excess of \$5,000 per ton. In a year where the majority of agricultural commodity prices has been fairly stable, the movement in the cocoa market has attracted a significant degree of interest. Open interest in the cocoa futures market shows how speculative capital is attracted to meet the needs of hedgers who wish to avoid risk. It truly shows the effectiveness of a futures market in enabling commercial firms seeking to avoid potential problems, which could be caused by highly volatile price movements, to find investors willing to profit from their perception on the direction of prices.

The coffee market has been the least volatile of the three soft commodities as the effectiveness of the International Coffee Agreement has been proven. The market has traded in a range between \$1.20 and \$1.40 for the first eight months of 1983, consistent with the objectives of the agreement. Volume in exchange activity in New York also has reflected the price variability as trading has been fairly quiet and open interest stands at 9,351 contracts.

While some traders have expressed the hope that there will be a new International Sugar Agreement to set more clearly the trends for world prices, no one can say for sure whether such an accord can be reached and sustained. While estimates appear to indicate a situation close to balanced supply and demand this year for sugar, reports also indicate that European beet plantings may be lower, which could cause a shortfall in 1984. If prices were to increase in the near term, we could see the elimination of the U.S. quota program, which would enable sugar to move more freely throughout the world.

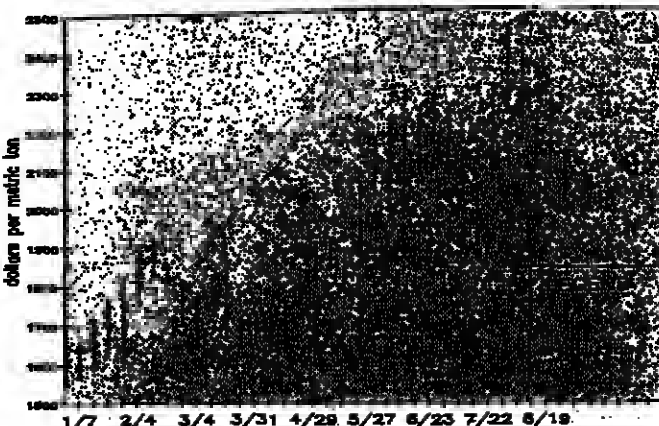
The cocoa situation remains in doubt as no one has really been able to exactly define the long-term implications of this year's weather on future harvests.

For coffee, it is quite possible that the strength of the International Coffee Agreement will be tested in the near term as stocks continue to build throughout the world and producing nations may find it necessary to sell coffee to obtain foreign exchange.

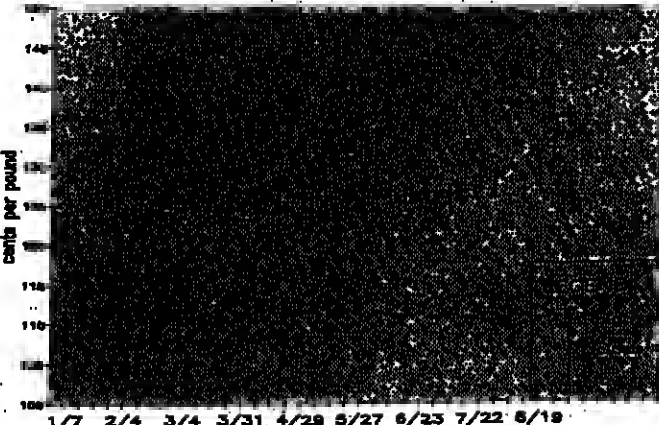
All in all, 1983 has been an interesting year as the forces of supply and demand have made their way into the futures markets. And these markets have shown that hedging needs and investor interest can meet to minimize the ultimate effects of price variability on commercial profitability.

The writer is the senior vice president for market development and planning of the Coffee, Sugar & Cocoa Exchange Inc.

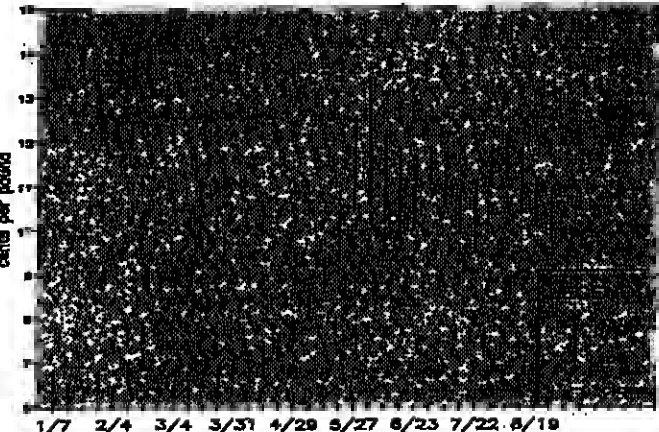
SPOT COCOA WEEKLY PRICES
January 1983 — August 1983



SPOT COFFEE "C" WEEKLY PRICES
January 1983 — August 1983



SPOT SUGAR NO. 11 WEEKLY PRICES
January 1983 — August 1983



U.S. Bull Market Lifts Stock Index Futures

(Continued From Preceding Page)

produce extraordinary returns. For example, if the Chicago Mercantile Exchange's Standard & Poor's 500 Index stood at 160, its underlying value would be \$80,000 (500 x 160). To invest, the speculator who thinks the market will rise would have to put up margin of about \$6,000. For every one point gain in the index, he would profit \$500.

However, low margins are a double-edged sword. While they permit fast profits, often as not they produce fast losses. As a result, many brokers have discouraged small investors from participating in these markets.

In an attempt to compete, securities exchanges introduced options on stock indexes last March. Volume in these instruments already

exceeds one million contracts per month.

In contrast to futures, the risk of loss in options is limited to the premium, or price of the option. Options can be purchased for as little as a few hundred dollars. Both these factors cause analysts to believe that stock index options, not futures, are a better investment choice for the small investor.

For large investors, however, particularly institutional holders of large stock portfolios, stock index futures represent an invaluable tool for hedging the risks associated with holding stocks. Institutional investors are attracted to the greater liquidity, as well as the lower transaction costs, found in these secondary markets. In a falling market, it can be difficult and costly to sell a \$250-million portfolio of stocks. However, a short position of equal size in stock index futures can be established in a matter of minutes, limiting the risks associated with selling in a market where buyers are scarce.

The reverse also can be true. In a rapidly rising market, portfolio managers can go long on futures, giving them the time to carefully select the stocks they wish to add to their portfolios. Widespread adoption of either strategy suggests that the stock index futures could help to reduce the securities' markets' recent volatility.

Before that occurs, however, the use of stock index futures by institutional portfolio managers will have to become more widespread. At present, these institutions account for only about 10 to 15 percent of total activity in these markets, according to the Commodity Futures Trading Commission.

Standing in the way of increased involvement are numerous legal and regulatory barriers. Some of these are beginning to fall. For example, New York recently became the first state to allow the use of index futures by the insurance companies that it regulates. And the U.S. Department of Labor, for the time being, allows the use of such instruments by pension funds.

(Continued on Page 125)

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COMMODITIES

Investors Staying Away From Gold Despite World Turmoil

By Brian Kettell
LONDON — Gold, traditionally a beneficiary of global instability, recently has remained insensitive to the daily headlines detailing large-scale debt rescheduling around the world.

The widespread belief that "Uncle Sam" will bail out any large-scale U.S. banking collapse, combined with the current high real returns obtainable in the U.S. money and bond markets, has led many investors to shy away from the yellow metal. Bullion market analysts believe that gold's lack of luster will continue until a downward trend in U.S. interest rates emerges.

Investment interest in gold has plummeted since the rapid fall in prices in early 1983. Fears of rising U.S. interest rates, combined with the inflation-reducing effect of falling oil prices, caused the gold price to collapse from \$510 an ounce in February this year to just above \$400 by early March. Since then, the gold price has, with a few slight exceptions, traded in the range of \$400 to \$430. At the \$400 level,

there is evidence of support buying by central banks.

In an attempt to widen the range of gold-related investment instruments, the New York Commodity Exchange, or COMEX, introduced gold futures options in October of last year.

Gold futures are contracts whereby the parties concerned agree to buy or sell a designated quantity of gold at a specific time period in the future, at a price agreed upon today. An option on a gold futures contract gives the investor the right, but not the obligation, to buy (call) a futures contract at a certain price (strike or exercise price) on or before the set expiration date.

For example, the August 460 call option recently closed at \$7.30 an ounce for a 100-ounce contract. That meant that for a price (premium) of \$730 a contract, the buyer could have purchased the right to buy the COMEX's August gold contract at \$460 an ounce on a 100-ounce contract on or before July 8. The August 460 put closed at \$2.25, meaning the buyer could have purchased for \$2,250 the right to sell the August gold contract at \$460 on or before July 8.

Gold options contracts and gold futures contracts have some similar characteristics. They both confer the right to supply or take delivery of gold at some future date. However, as its name suggests, an option can be left to expire unexercised, whereas a futures contract cannot be abandoned in this way.

More importantly, the buyer of an option knows, at the time of purchase, exactly how much money

he can possibly lose — the premium — whereas the buyer of a futures contract does not know in advance how much variation margin he will have to pay if the market goes against him.

So the option buyer knows in advance that he can lose no more than the price of the option, while at the same time he maintains the potential profit from the underlying contract. If the market moves against the option seller, however, he may eventually be exercised upon by his purchaser, i.e. required to deliver a futures contract at the given strike price. At this point, his risk is potentially unlimited, as he has the opposite side of a futures position with the market moving to his disadvantage.

Not surprisingly, small speculators favor the less risky side of the options game and purchase call or put options. "Gold for the not so bold," proclaim advertisements in the New York press.

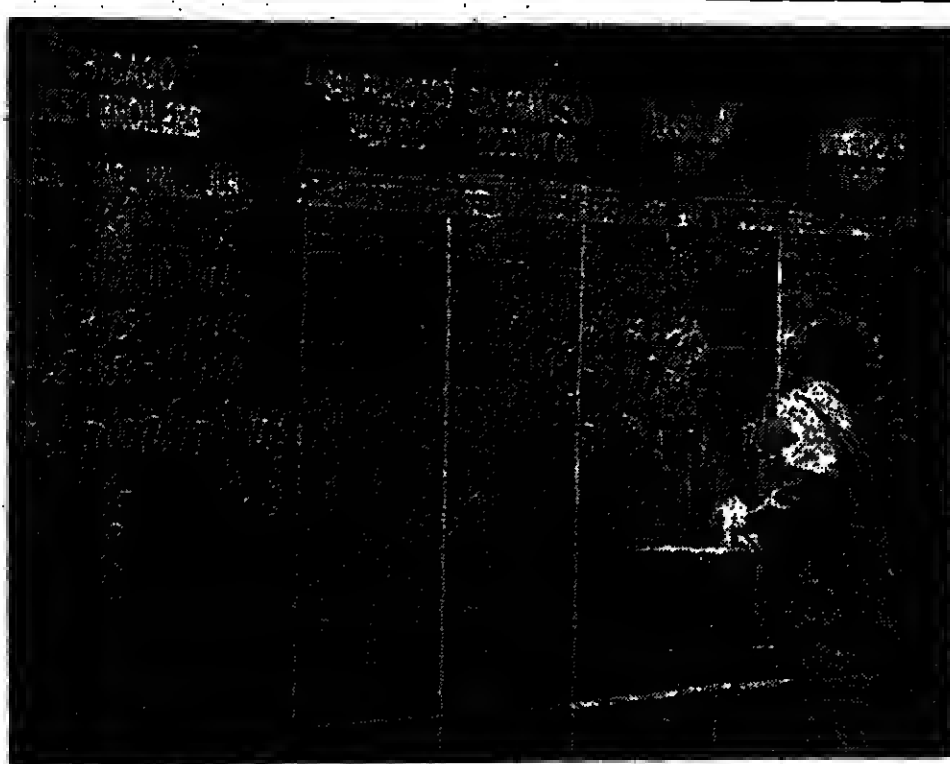
Options also are traded on the London gold futures market. They are listed and traded much like the COMEX options, but offer lower volume and open interest and are consequently less liquid. Indeed, last month, only some 320 options had been traded on the London market, which opened for trading on April 19, 1982, but only started trading gold options in March 1983.

Daily volume on the New York Commodity Exchange recently has averaged around 1,250 contracts, down from the 1,500 contracts a day averaged in the first three months of 1983 when the gold market was quite active. It is up substantially from the 930 contracts

averaged in the last three months of 1982. COMEX officials would like to see 3,000 to 5,000 contracts a day traded by the end of the year, but whether that is realized largely depends on the volume in the futures pit. Volume in the options pit has recently, as mentioned, averaged around 1,250 contracts a day, against the 30,000 in the futures pit. The options volume, at 4 percent of the futures volume, is up on the 2.2 percent volume averaged in the first three months of the year. COMEX officials hope to see options volume equal 5 percent to 10 percent of futures volume by the end of 1983.

Open interest, the number of unliquidated purchases or sales, in the COMEX options recently has averaged around 18,000 contracts in contrast to the futures open interest of around 110,000 contracts a day. COMEX officials are expecting a 20,000 open interest in the options market by the end of the year.

Whether these COMEX forecasts are realized depends on a marked change in investors' perceptions of the future gold price.



The prices board at the Chicago Board of Trade.

High Market Growth, Technology Advance Global Links

(Continued from Page 95)

and the Chicago Mercantile Exchange. The second, between the American Stock Exchange, or AMEX, in New York and the Chicago Board of Trade, would allow for the first time members of a stock exchange and members of a commodities exchange to trade each other's products without having to register with both exchanges.

Mr. Melamed called the two agreements "healthy" for the markets. One analyst said that he saw "nothing but benefits for both sides."

"The bridging of options and futures is a natural relationship," Mr. Yates said. "Both are risk-shifting markets as opposed to investment markets." In fact, he said, "the link-up is overdue because of [past] rigidity of regulations. [The mar-

kets] are impelling us now toward new regulations."

While the coming together of international markets and of securities and commodities markets dominated the attention of market watchers, other events shook the markets as well. The Marc Rich case — in which the giant Swiss-based commodities firm went up against U.S. courts when they demanded cooperation on an investigation of the firm's crude-oil trading operations — may have lasting significance. The Swiss government protested the U.S. courts' attempts to force the company to turn over documents that a Swiss court claimed were protected under Swiss laws.

The question that may arise from the case, according to Mr. Yates, the New York commodities attorney, is: "Are U.S. laws, international laws and existing treaties sufficient to take care of international financial problems?" The answer may not come for some time.

Physical commodities, too, had their day in the sun — especially U.S. feedgrains, which were affected by the worst drought in the U.S. farm belt since 1936. The Sept. 12 crop estimate from the U.S. Department of Agriculture reported that the U.S. corn crop would be reduced by 48 percent compared with the 1982 crop, while soybeans output was reported 33 percent lower than in 1982.

Analysts agreed, however, that the market could recover within a year from such setbacks, especially if Brazil reacted to the U.S. soybean loss by planting more soybeans at its spring planting.

There was good news in the grain

markets as the sellers welcomed the Soviet Union's agreement to purchase nine million metric tons from the United States in a new five-year agreement, with an additional three million metric tons allowed without consultation.

Trading in energy became increasingly important in commodities markets, and as the Organization of Petroleum Exporting Countries' influence in energy pricing declined, the New York Mercantile Exchange became the focal point for international petroleum prices. In the testing stages is an additional market for trading energy futures, the World Energy Exchange in Dallas. The exchange is in the first stages of a simulated trading system and may be operative late this year.

Perhaps the best example of the recognition of the importance of

the events of the last year in the commodities markets is the number of studies being done on the effects of the commodities markets on the international economy. The U.S. Federal Reserve has one such study under way, as does the private American Enterprise Institute.

With change coming about so rapidly in the markets, however, whatever answers are arrived at may be based on information that quickly will be outdated.

"With so much cross-fertilization going on," said Barbara Richards, vice president of marketing services for the Chicago Mercantile Exchange, "there's really a potential for continued huge growth in futures markets. It's really a whole new world."

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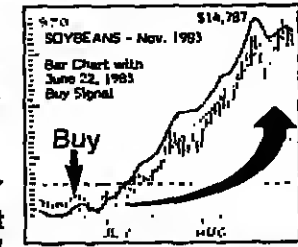
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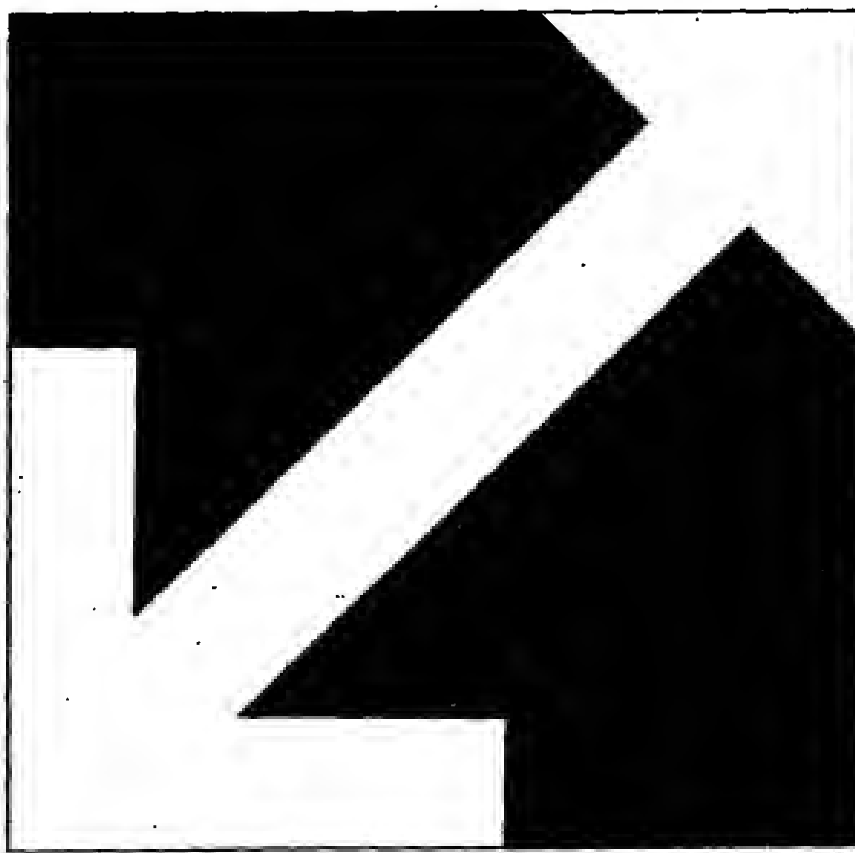
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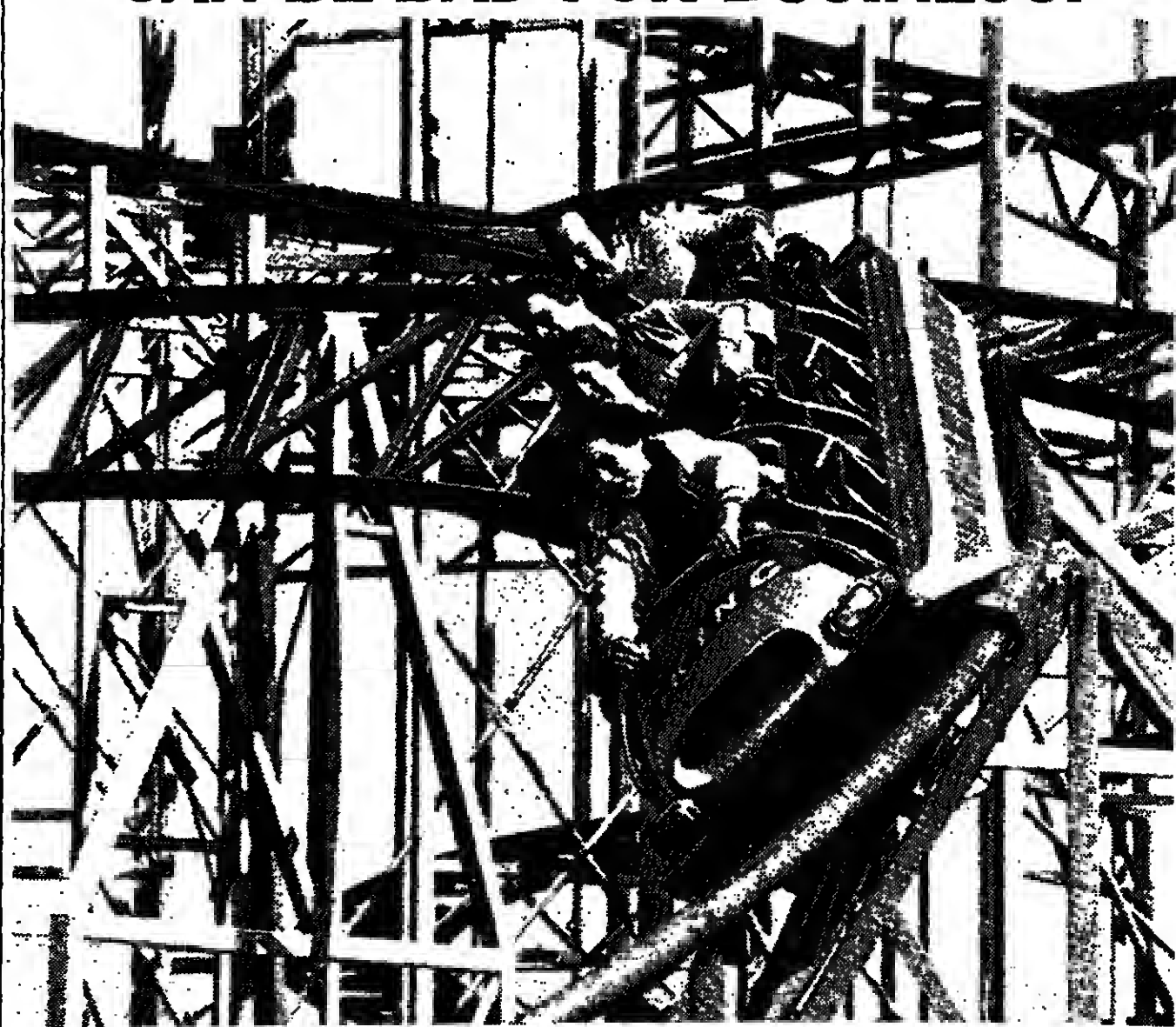


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Market Life ex Futures

...the market life of futures contracts is a complex one. It involves the interaction of many factors, including the volatility of the underlying asset, the liquidity of the market, and the effectiveness of the clearinghouse. In this article, we will explore the various factors that influence the market life of futures contracts and how they can be managed to minimize risk.

One of the most important factors in determining the market life of a futures contract is the volatility of the underlying asset. Volatility refers to the degree of price fluctuation, and it is a key factor in determining the risk of a position. High volatility increases the risk of a position, while low volatility decreases it.

Another important factor is the liquidity of the market. Liquidity refers to the ease with which a position can be entered or exited. A market with high liquidity is more likely to have a longer market life, as it is easier to find a counterparty for a position.

Finally, the effectiveness of the clearinghouse is a crucial factor in determining the market life of a futures contract. The clearinghouse acts as a guarantor of the contract, ensuring that all parties fulfill their obligations. A clearinghouse that is not effective can lead to a shorter market life for the contract.

By understanding these factors and how they interact, traders can make more informed decisions about the market life of their futures contracts. This knowledge is essential for managing risk and maximizing returns in the futures market.

Continued on Page 116

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THE REAPER

COMMODITIES

1983 Is Another Boom Year in Farm Futures; Volume Soars

By Jerome Idaszak

CHICAGO — Just about everyone connected to U.S. farms began 1983 worried about the huge grain surpluses that had filled bins and elevators for two years. The U.S. government devised a program called PIT, for payment in kind, to pay farmers with crops in exchange for letting acreage lie fallow. Even as planting began, no one knew that the summer would bring so severe a drought as to invite comparisons to the Dust Bowl era of the 1930s.

Prices have soared. Soybeans, below \$5 a bushel in late 1982, went through the \$8 mark, then past \$9 on the way to \$10 as the hot, dry weather lingered. Corn prices crept toward \$4 a bushel, up more than 50 percent in one year.

In the futures business, the spotlight shifted, too. Last year, 1982, was called the year of the stock index contract as exchanges in Kansas City, then Chicago and New York introduced the newest item: buying and selling contracts based on the rise and fall of decimal points of an index, with payment in cash.

But, 1983 was again a year for farm futures. Trading in futures on corn, soybeans, soybean oil and meal in July alone pushed volume at the Chicago Board of Trade up almost 48 percent above the same month the year before. And the boom quickly translated into a rise in membership prices at the Chicago board to a record of \$335,000 in August, topping the previous mark set in October 1980, when grain prices jumped after a drought.

"This won't slow the trend toward financial futures," said Thomas Cunningham, chairman of the Chicago Board of Trade, whose biggest contract is based on U.S. long-term Treasury bonds. "But unquestionably, [agricultural] volume will be strong

again in 1984. This [the heavy trading] should continue at least into July next year, when people can get a handle on the new [corn and soybean] crop."

Yet, while the drought remained a constant topic across the midwestern United States during the summer, the reduced corn and soybean crops were not creating a shortage. Even with 40 percent of farmland idle due to the PIT program and with the drought, the expected corn harvest of about 4.39 billion bushels would be added to a 3.5 billion bushel carryover from previous years. Farm economists said the total would create a "normal" situation going into the 1984 season.

Some economists and traders even think 1984 might bring a return of recent years. Dennis Steadman, an agricultural economist with the suburban Philadelphia firm of Chase Econometrics, said farmers might see the high prices this year and the falling surpluses and go "all out" with their planting in 1984. Good weather, Mr. Steadman said, could then put the U.S. crop numbers about where they were before the 1983 drought.

Economists and traders alike agreed that the strong U.S. dollar was a factor causing some European and other foreign users to seek substitutes or to cut back usage. Indeed, when asked what conditions might cause soybean futures to break their record of \$12.90 a bushel set at the Chicago Board of Trade on June 5, 1973, Mark Gold, a trader in Chicago, said it would require: hot weather the first half of August, a frost before Sept. 10 and a cheaper dollar during 1983.

While corn and soybean prices soared, wheat prices remained low due to the continuing surplus in that commodity. Most prices also remained low and were headed lower for a while. The high price of corn, while a tremendous shot in the arm in terms of cash flow

for the grain center, is going to be a tremendous hardship for livestock producers," Mr. Steadman said. The grains, used to feed animals, caused higher expenses for producers of cattle, hogs and poultry.

The slump in meat prices spilled into the futures arena. The Chicago Mercantile Exchange in midsummer saw volume from 1 to 7 percent lower in futures on cattle and hogs.

"The speculators have moved into grains. It's a bull market there, which attracts your inexperienced speculator," said John F. Sandner, a former chairman of the Chicago Mercantile Exchange and a trader in cattle futures.

But the downturn in meat, economists said, would bring about a short supply probably in the spring of 1984, as producers unwilling or unable to pay high prices for feed in 1983, send their animals to slaughter and have smaller herds next year.

"Cattle, along with foreign currencies, are the two big bull markets in futures that I see coming soon," Mr. Sandner said.

While economists and traders offered some guesses about food prices and futures in the coming year, there was one area that required little guesswork: options on agricultural futures will be launched, probably by the fall of 1984.

The Commodity Futures Trading Commission, the U.S. agency that regulates trading on futures exchanges, has been discussing details of an options plan for agriculture. It would follow a pilot program that has been going for a year under which each exchange can trade one option based on a financial future.

"Options provide a limited risk," said Kalo Hine, a commission member. "You buy 'put' option [which carries the right to sell] and you can walk away if the price soars. And you have a floor if prices fall."

There is a predictability about the cost [in options] that should appeal to a lot of producers and their lenders."

"Options have terrific speculative potential, and opportunity for commercial users of soy products," said Mr. Cunningham. "The guy with an inventory that lies dormant in his elevator is making no money. Allowing someone to buy an option on his inventory, he is able to make money."

However, some economists and traders are cautious about the potential of options. Walter Vernon, chief executive of the Kansas City Board of Trade said: "Some farmers think options are a good thing, but the big grain firms aren't so sure."

He added that futures brokers have been slow to learn about options, which trade differently than futures and which have different tax treatment.

"I think futures are simpler to understand," Mr. Vernon said. "But, at Kansas City, we have an open mind. We're developing a wheat options contract."

The Chicago Mercantile Exchange expects the Commodity Futures Trading Commission to allow two options, and the Chicago exchange is thinking about options on cattle and hog futures.

"I don't see it resulting in any gigantic volume in the short-run," said Clayton Yentzer, president of the Chicago Mercantile Exchange. "It's a long-term investment on the part of the exchanges and the brokerage community."

"It's something comparable to financial instruments where it took five or six years to get to significant numbers," Mr. Yentzer added. "But I see it as a major volume producer five years from now, or 10 years from now with some options doing as much volume as futures, or more."

CONTRIBUTORS

LAURIE COHEN writes on financial markets for the Chicago Tribune.

PATRICK DONOVAN, who has just joined the London Daily Express, is a financial journalist who in recent years has specialized in the oil markets and in insurance.

BRIAN KETTEL, a lecturer in international finance at City of London Polytechnic, is the author of "Gold." He edits the weekly newsletter Currency Forecasting Service.

JEROME IDASZAK is a financial columnist for the Chicago Sun-Times who specializes in options and futures trading.

RANDELL E. MOORE, a former financial journalist, is director of public relations at Evans Economics, a forecasting firm in Washington. He has been a reporter for the Commodity News Service, and an assistant to the chairman of the Commodity Futures Trading Commission.

SHARON W. WALSH, a Washington-based journalist, was most recently assistant business editor at the Philadelphia Inquirer. She has worked as a news editor for the Commodity News Service.

The focus is on delivery month problems and price convergence. These activities are foreign to the SEC.

Mr. Gaine said that the Securities and Exchange Commission is concerned with "what kind of retail customer will trade." The focus is on "full disclosure" of the investment and on customer protection.

"To talk about the one common element—retail customers—loses sight of all the essential differences," he added.

Mr. Gaine also said that he thinks the Commodity Futures Trading Commission has allowed innovation in new products, which he considers a positive aspect.

"Who knows what the next innovations will be. But they will be there in the futures markets—whether it involves insurance, freight rates, consumer price indexes, automobile sales," he said.

Still, even some in the futures industry say that the pressure for a merger is likely to return for a couple of reasons: As more brokerage firms engage in both futures and securities trading, brokers and traders will want one agency to reduce paperwork and conflicting regulations; and as banks and insurance companies do more trading, bankers and insurance agents might be more comfortable with the old-time SEC as the regulatory agency.

A task force led by Vice President George Bush is studying whether to consolidate regulatory agencies. But Mr. Wilmoth thinks that the group "will shy away" from the topic of a merger.

Those people who favor a merger can make a case that "many of the products [futures and options] are functionally equivalent," said Thomas A. Russo, a partner with the New York law firm of Cadwalader, Wickersham & Taft. Mr. Russo has worked for both sides, with clients including the Philadelphia Stock Exchange and the Commodity Exchange of New York, as well as futures traders and securities firms.

"But," he added, "politically, it would be very difficult to have a merger. And there are numerous products that are dissimilar."

Other people involved, like Philip M. Johnson, former chairman of the CFTC, disagreed with Mr. Russo that, even in theory, a case can

be made for one agency. Mr. Johnson worked out the jurisdictional agreement with his SEC counterpart, John S.R. Shad.

One agency might make regulations worse because "bits and pieces from the various existing regulatory programs might be forged together into a new crazy quilt pattern, creating confusion and disrupting established business patterns," Mr. Johnson said.

Mr. Johnson's successor at the CFTC, Susan Phillips, said that a merger "might be workable, depending on how it's structured."

But she added that a merger would not provide any savings for the brokerage industry or the federal budget. And, she said both agencies have been cooperating and could work together in new areas, thus dampening talk of a merger.

"Perhaps the biggest force, however, that is at work to prevent a merger simply is the growth of futures trading. Just under four million contracts were traded in 1980. That exploded to about 112 million in 1982. And 1983 is running about 30 percent ahead of last year. Regulating that growth is a major task."

But one futures industry leader, who asked not to be identified, said he thinks a combination will take place, around the end of this decade. Its form, he said, will be "more like a legitimate merger than a swallowing of the CFTC. And it probably won't even be as controversial as it is now."

—JEROME IDASZAK

Stock Futures (Continued from Page 10S)

managers. Exchange officials concede that progress is being made in this area, but at a pace that they find frustrating.

Ironically, some market analysts suggest that a major market correction could be the catalyst needed to increase institutional involvement. Futures always have been viewed by economists as a much more useful risk-shifting tool in falling markets than in rising ones.

Should the recent explosion in securities prices stall and begin to falter, portfolio managers might rush to stock index futures to limit the losses they would suffer from holding multimillion-dollar portfolios of stocks, analysts said.

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Merger Discussed as Regulatory Agencies Overlap

CHICAGO — As the traditional differences between commodities and securities markets become blurred, the areas overseen by the Commodity Futures Trading Commission and the Securities and Exchange Commission, the respective regulatory agencies in the United States, will overlap more and more. One result: ongoing discussion

about a possible merger between the two agencies.

The introduction of futures trading in Treasury bills and bonds, other financial instruments, foreign exchange and, more recently, stock index futures and options, already has all but eliminated the distinctions between the markets. And as other futures and equities markets link up, like the recent announced plan by the Chicago Board of Trade and the American Stock Exchange to give access to each other's stock index futures and options

markets, the existing regulatory lines will be further eroded.

A merger of the two agencies would have a sweeping impact, and not just on the staffs. It would affect who could trade, how much money would be required for a person to trade, and whether and how brokers are tested and registered.

Susan Phillips, the chairman-designate of the Commodity Futures Trading Commission, told an audience of futures officials in late summer that some members of the Securities and Exchange Commission "have put out tender offers" to acquire the commission.

"It's dominant, but it's not dead," noted Clayton Yentzer, president of the Chicago Mercantile Exchange, referring to the possibility of a merger.

The Securities and Exchange Commission, formed in the 1930s, has achieved a solid place in the regulatory landscape of the U.S. government. The Commodity Futures Trading Commission, in contrast, was created less than 10 years ago as a more powerful successor to the Commodity Exchange Authority, a small-staffed unit that worked out of the basement of the U.S. Agriculture Department.

In its early years, the CFTC was criticized for sloppy enforcement for being publicly hungry in some cases and for largely ignoring a growing industry.

It was during this time that futures exchanges began their expansion beyond grains and livestock into financial products: foreign currencies, U.S. Treasury bills and bonds. And, as a result, the ex-

changes and their regulatory agencies began the continuing fight over financial territory.

It reached a point of near explosion when the Chicago Board Options Exchange won approval from the Securities and Exchange Commission to trade options on an interest rate contract tied to the housing industry. But the Chicago Board of Trade already was trading futures based on the same thing.

The CBOE filed a lawsuit against the SEC.

The dispute sparked speculation that the U.S. Congress would merge the CFTC into the older, more respected SEC. It might have happened, but for two things: a strong effort by futures industry leaders and the election of a deregulation-minded president, Ronald Reagan.

The Reagan forces were not the kind who wanted a new "super-agency." In addition, President Reagan appointed new chairmen at both the CFTC and the SEC. A half-dozen meetings in 1981 between the commissions' heads led to a major agreement dividing up jurisdiction on new financial products.

That agreement cut short the talk about a merger. Then, in 1982, Congress held hearings on the CFTC and extended its existence for four more years.

"I don't see it as a major issue for the near term," said Robert K. Wilmoth, president of the National Futures Association, a newly created industry self-regulatory organization.

Mr. Wilmoth, who is a former president of the Chicago Board of Trade, said that "Congress sent a pretty clear message" during the 1982 hearings on the CFTC that the futures industry was involved in risk insurance on commodities, while the securities business dealt with capital formation. "The functions are different," he Wilmoth said.

"I think right now I feel more sanguine about an independent CFTC because people realize more and more the differences in the regulatory systems," said John V. Gaine, former general counsel with the CFTC and a partner in the Washington law firm of Alston & Bird.

"The history of futures trading is rooted in economic considerations — the product, whether soybeans or interest rates or gold, shifts risk

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BUSINESS PEOPLE

Quaker Names President for Europe, Reflecting the Growth of Its Business

Quaker Oats Co., the U.S. breakfast-cereal producer, has appointed Ronald G. Lagden to the new position of president-Europe in recognition of the growing importance of European business, a company spokesman said. Mr. Lagden, 56, who is based in Brussels, will continue to head Quaker's European grocery investments, which the company said account for nearly 20 percent of Quaker's worldwide sales.

Quaker's net sales from continuing operations in the year ended June 30, 1983, were \$2.6 billion. Mr. Lagden also will have "overall coordinating responsibilities for Quaker's operations in Europe," the spokesman said. Quaker's major lines in Europe are its cereals, pet foods and edible oils. The company also sells its Fisher-Price toys and chemicals in Europe.



Ronald G. Lagden

Taubman to Be Sotheby's Chairman

Alfred Taubman, the Detroit property multimillionaire whose bid to acquire Sotheby's Parke Bernet was cleared by Britain's Monopolies Commission last week, will take over as chairman and chief executive of the fine-art auctioneer. Sotheby's new managing director and chief operating officer is David Ward, a partner in the Detroit office of the accounting firm of Touche, Ross and Co. who also is Mr. Taubman's accountant. Henry Ford II will become vice chairman and Mr. Fisher will be a director. Mr. Ford and Mr. Fisher were Mr. Taubman's two partners in the Sotheby's bid. Mr. Fisher is a former chairman of United Brands.

BAI Names Salim Al Hoss to Board

Banque Arabe et Internationale d'Investissement, the holding company for Gray Dawes, has named to its board Salim Al Hoss, former prime minister of Lebanon; Pierre Ledoux, honorary president of Banque Nationale de Paris; Lord Ischope, and C.J.M. Harde, chairman of the National Provident Institution. Yves C. Lamarche, chief executive of BAI's holding company, has been named chairman.

BAI is an Arab-Western joint-venture merchant bank based in Luxembourg. Its flagship operation is in Paris. BAI bought Gray Dawes, the London banking institution, from Inchcape & Co. last July for \$12 million.

Other Appointments

Richard M. Page, 50, will become chairman and chief executive officer of Alexander Howden Group PLC by year-end. He formerly was executive vice president of Alexander and Alexander Inc. in the United States. The Alexander Howden Group is the London-based subsidiary of Alexander and Alexander Services Inc., the U.S. insurance broker.

ASEA, the Swedish maker of electrical and electronic equipment, has appointed Per Ramvall managing director of its subsidiary in Zurich. Mr. Ramvall, whose new position is effective Oct. 1, succeeds Heiner Halk. Mr. Ramvall currently is vice president, international operations division-developing countries, at ASEA in Vasteras, Sweden.

J.C. Albrecht has been named president-director general of ICL France, a Paris-based subsidiary of the British computer maker, Mr. Albrecht formerly was with the Emsip-Schneider group, where he was responsible for the coordination of the electronic sector.

John L. (Jack) Davies has been named to the new position of division vice president for RCA Records-Europe. He will be based in London. Mr. Davies joins RCA from General Electric Corp., where he has had extensive involvement in international and domestic marketing for several of GE's audio-product lines.

Sir Arnold Hall, chairman of the Hawker Siddeley Group PLC, will become a nonexecutive member of the board of Rolls-Royce Ltd. Oct. 1. Rolls-Royce is a U.K.-based maker of aircraft engines.

Guinness Peat Group PLC, a London-based investment banking and financial-services concern, has appointed Lord Cromham nonexecutive chairman effective Oct. 1. Lord Cromham is chairman of British National Oil Corp. and a director of Pilkington Bros. PLC.

Morgan Guaranty Trust Co. of New York has named Christian Desch, Robert de Vogtle, Louis Guenier and André Rolland vice presidents. They are based in the bank's Paris office. Named vice presidents in the Madrid office were: Antonio Aparicio and José Manuel Herra.

Darrid McManis and Robert Place have been promoted to vice presidents in the London branch of Continental Illinois Bank & Trust Co. of Chicago. Mr. McManis is manager of the foreign-exchange department. Mr. Place works in the construction/engineering division of Special Industries Services.

George S. Penteos, currently the Bank of New Zealand's senior vice president and manager in New York, has been appointed regional manager for the United Kingdom and Europe for the bank in London, effective Oct. 10. He succeeds Gerald Scott, who plans to retire.

—BRENDA HAGERTY

Rate Hopes Pull NYSE To Record

Dow Climbs 15.25 In Heavy Trading

United Press International

NEW YORK — The Dow Jones industrial average climbed 15.25 points to a record 1,249.19 Tuesday in a New York Stock Exchange rally triggered by investor hopes for easier credit and lower interest rates.

The Dow average of 30 blue-chip stocks, which rose 8.23 Monday, topped its previous high of 1,248.94 set on June 16 thanks to a late burst of buying. The Dow now is up 472.26 since the bull market began Aug. 13, 1982.

The Dow Jones transportation average surged 7.20 to 590.02, just below its all-time high of 590.66 set June 27. Technical analysts said it was important for the two averages to move in tandem for the market to sustain its rally.

Brokers were impressed with the gains because many investors have automatic selling programs at the previous mark that blocked the Dow from new highs four times in the past three months.

The New York Stock Exchange index rose 0.79 to 97.88 and the price of an average share increased 30 cents. Advances topped declines 984-623 among the 1,983 issues traded.

Big Board volume climbed to 103 million shares from 85.6 million traded Monday as institutions came off the sidelines to adjust their portfolios for the end of the third quarter.

"The market looks like it has gotten conviction after three months of being in the doldrums and we could be starting the second leg of the bull market," said L. Crandall Hays of Robert W. Baird & Co., Milwaukee.

"The fundamental reason for the market climbing is a growing belief the Fed is finally going to ease credit a bit," said Ricky Harrington of Interstate Securities, Charlotte, North Carolina.

For the second consecutive day, federal funds rates, which banks charge one another for overnight loans, dropped, this time to 9 1/2 percent from 9 3/4 percent. The bond market rallied as the Treasury's three-day \$14.25-billion refunding got underway and found many buyers.

"A decline in interest rates and projections of a small drop in the money supply this week were big factors in the move today," said Harry Vilco of Suco & Co., Palo Alto, California.

Analysts said they expected Federal Reserve will report a \$200-million drop in the nation's money supply Friday. Even though the supply rose \$5.5 billion last week, it was within Fed target ranges.

The American Stock Exchange index jumped 1.01 to 237.63 and the price of an average share rose seven cents. Advances topped declines 312-286 among the 809 issues traded. Volume totaled 8.5 million shares, compared with 6.8 million Monday.

The National Association of Securities Dealers index of OTC stocks gained 1.53 to 303.36.

On the trading floor, BankAmerica was the most active NYSE-listed issue, off 1/4 to 21 1/4. Diamond Shamrock followed, up 1/4 to 25 1/4.



The Banco de Chile building and entrepreneur Javier Vial

The Vial Empire: An Object Lesson In Chile's Economic Rise and Fall?

By Stephen Kinzer

New York Times Service

SANTIAGO — For a man who presided over the most spectacular financial collapse in Chilean history, who is caught in a tangle of lawsuits and who owes hundreds of millions of dollars to foreign and domestic banks, Javier Vial seems remarkably relaxed and self-confident.

From his suite atop Santiago's tallest skyscraper, which he had built two years ago, Mr. Vial presides over a tottering empire of more than 50 mines, farms, paper mills, factories, fishing fleets, retail chains and other enterprises.

The government has taken over management of his bank and mutual funds, yet he remains certain that he will not only be able to stay out of jail, but that one day the conglomerate he forged will reemerge as a powerful financial force.

"If you were to liquidate our assets today, you would find that they would not produce enough

money to pay off our \$650 million in debts," Mr. Vial, 49, conceded in an interview. "But in a space of 3 to 10 years from now, we will be in a position to meet all our obligations and begin showing profits again."

Even Mr. Vial recognizes, however, that the days when bold Latin American entrepreneurs were able to build vast empires on pyramids of unsecured credit and paper holding companies are gone forever. They passed into history along with the low interest rates, petrodollar loans and booming commodity markets that made his rise to power and wealth possible.

The Vial group fell victim to the same forces that have pushed more than 900 Chilean businesses and countless others across Latin America into bankruptcy since the beginning of last year. But because of Mr. Vial's flamboyance and the scale of both his success and failure, economists and financiers have

(Continued on Page 17, Col. 1)

France Clears CGE Asset Shift With Thomson

By Axel Krause

International Herald Tribune

PARIS — The French government approved Tuesday the acquisition of Thomson-Brandt's telecommunications business by Compagnie Générale d'Electricité as part of a reorganization that French officials hope will leave both government-controlled companies better able to compete domestically and in world markets.

The agreement also provides for the transfer to Thomson of CGE's military- and consumer-electronics business. The shift in assets is expected to reduce Thomson's losses, which last year totaled 2.2 billion francs (\$275 million). CGE earned 638 million francs last year.

The brief communiqué issued by the two companies gave few details on financial arrangements, managerial responsibility or plans to reduce workforces. CGE, a diversified maker of electronic, electrical and energy equipment, and Thomson, which makes consumer-electronics products and parts, each employ more than 100,000 people.

A senior government planner said that "much remains to be negotiated, but we will attempt to preserve jobs." He said the changes marked "the first major reshuffling of France's industrial cards" since the Socialist took power in May 1981.

The restructuring negotiations had been widely discussed in the French press and involved two of France's most highly regarded managers, Alain Gomer, president of Thomson, and George Pébereau,

managing director of CGE. They came to Industry Minister Laurent Fabius early in the summer with the restructuring plan amid government insistence that the large nationalized industries become more efficient.

The key ingredients of the agreement, which was approved by the Elysée Palace early Tuesday, must now be subjected to what officials called consultation with labor groups. Industry and government officials said that the broad outlines of the agreement will be implemented by the end of this year.

French and foreign industry observers in Paris said that the agreement appeared unlikely to have any immediate effect on strengthening CGE's position in telecommunications, notably CIT-Alcatel's efforts to compete against U.S. and Japanese companies. CIT-Alcatel is CGE's large telecommunications affiliate.

However, a government official said, "This is not a U.S.-style merger with quick results, but rather a methodical, structured approach to modernization within France, hoping we will come out of it stronger internationally."

Under the restructuring, Thomson's telecommunications business, with revenue of about 12 billion francs and a workforce of around 30,000, will be transferred to a new holding company to be called Thomson-Telecommunications. In what the negotiators described as a "transitional phase," the French government will become the largest

(Continued on Page 15, Col. 5)

GATT Chief Says Budget Deficits Stifling Upturn

By Brij Khindaria

International Herald Tribune

GENEVA — Economic recovery in the United States and other developed countries is being stifled by budget deficits, according to Arthur Dunkel, director general of the General Agreement on Tariffs and Trade.

Officials at GATT, an agency that monitors world trade, "are seriously worried that there may not be sufficient capital resources to support a healthy economic recovery," Mr. Dunkel told a group of leading European businessmen gathered in Geneva to discuss U.S. President Ronald Reagan's economic policies.

Private savings are being mopped up by government borrowing, leaving insufficient funds for investment in industry, he said. Moreover, much of the available capital is being used inefficiently, aggravating problems in the way of economic recovery, Mr. Dunkel argued.

"In the seven leading industrial countries last year, governments borrowed for their own use an average of 20 percent of private savings — double the average figure for 1976-81," he said.

Criticizing the Reagan administration's argument that U.S. economic recovery would pull the rest of the world out of recession, Mr. Dunkel insisted that economic recovery cannot by itself solve the problems of capital shortages, international indebtedness and protectionism.

However, economic recovery

does bring an opportunity that, if bolstered through appropriate policies to cut protectionism and government-budget deficits, could lead to a new prolonged period of prosperity after 10 years of economic stagnation, he told the meeting.

He criticized the view that a reduction in U.S. purchases of foreign goods would mean more U.S. jobs. The U.S. trade deficit has increased because its economy is growing faster than those of other countries, he argued. Trying to reduce the deficit by cutting imports would dampen domestic consumption and business activity.

The solution, he said, lies in increasing exports, which, in turn, requires a return to free-trade principles rather than options of "fair" or "organized" trade.

Mr. Dunkel said protectionism

has increased in recent years, despite pledges at the GATT ministerial conference last November and at the Williamsburg summit earlier this year to reduce trade barriers.

To make matters worse, disputes over agricultural trade between the United States and the European Community could cause "a serious deterioration in trading relations as a whole," he warned.



Arthur Dunkel

3 More Soft-Drink Firms to Use Searle's Aspartame

New York Times Service

NEW YORK — G.D. Searle & Co. said that PepsiCo Inc., Dr. Pepper Co. and Seven-Up Co. had agreed to use Searle's protein-based, low-calorie sweetener aspartame in their diet soft drinks. A spokesman for Seven-Up, however, said that the company had "no comment" on the announcement.

Since aspartame was approved for use in soft drinks by the Food and Drug Administration in July, six U.S. soft-drink makers have said that they would use the sugar substitute. Searle said Monday that the last three had signed contracts over the weekend. The new products are to be available nationwide early next year.

Aspartame, under the brand name NutraSweet, tastes like sugar. As a result, diet soft-drink makers that now use saccharin expect the market to expand as people who do not like saccharin's aftertaste are

won over to drinks sweetened with aspartame.

Until aspartame was approved, saccharin had a monopoly on the low-calorie soft-drink market. Squirt Co., which announced last month that it would use aspartame, said it would now use the new sweetener exclusively. But Coca-Cola Co. and Royal Crown Cola Co. have said that they would use both aspartame and saccharin in a reformulation of their diet soft-

drink recipe. Dr. Pepper said that its sugar-free Canada Dry ginger ale would use both sweeteners. PepsiCo will use NutraSweet in Diet Pepsi-Cola.

PepsiCo has been using NutraSweet exclusively in its Diet Pepsi in Canada for two years. Saccharin is banned in Canada because it has been linked to cancer in laboratory animals. Use of saccharin in the United States must be accompanied by a health warning.

All the companies that have said they would use NutraSweet have said those products would have the same price as their saccharin and sugar versions.

German Shipyards Hurt Badly by World Slump

By John Tagliabue

New York Times Service

BONN — Protests at the biggest shipyard in Bremen have underscored the impact on West Germany, Europe's biggest shipbuilding nation, of the world shipping slump.

Officials of four North German states Monday approved the equivalent of \$22.4 million of financial aid for West Germany's ailing shipyards.

They predicted that it would assure the yards of orders totaling \$486 million during the next two years.

The decision came as workers in the port of Bremen occupied that city's biggest shipyard to protest against its possible closure and the layoffs of thousands of workers. Their action followed by a week the occupation by workers of the country's biggest shipyard, in Hamburg.

On Tuesday, the Hamburg workers voted to end their protest, but called on management to revoke layoff notices and open negotiations on the future of the yard.

The economic ministers of West Germany's four coastal states — Hamburg, Bremen, Schleswig-Holstein and Lower Saxony — agreed at a meeting in Hanover to subsidize 6 percent of ship-construction costs to the end of 1984 and 4 percent in 1985.

The payments would begin Oct. 1, subject to European Community approval.

Earlier this month, the government in Bonn had approved aid totaling \$44.9 million for the shipyards.

West Germany, with deliveries of 615.4 million tons of shipping in 1982, is the world's third-largest shipbuilding nation, after Japan and South Korea.

With the world payments crisis shrinking trade, however, the industry's orders in the first half of this year slipped 39 percent, to \$353.1 million.

As orders have plunged for tankers and other merchant ships, several thousand workers continued their occupation Tuesday of the big A.G. Weser shipyard near Bremen. The yard is 80-percent owned by the Krupp steel enterprise.

Weser, in an agreement with the city's two other yards, Bremer Vulkan and Hapag-Lloyd, is expected to scuttle its money-losing yard in the suburb of Groppelingen and to lay off about 1,500 workers.

In Hamburg, about 350 workers had occupied the yards of Howaldtswerke-Deutsche Werft, which is controlled by the state-owned Salzgitter steel company. Howaldtswerke says that it wants to stop building new ships in Hamburg, concentrating there instead

oo repairs. As a result, about 1,300 workers would be laid off.

The North German states, where unemployment is more than 11 percent, compared with the national average of nearly 9 percent, have been largely frustrated until now in their search for extensive help from Bonn, where the government is emphasizing austerity.

Although Economics Minister Otto Lambrecht has agreed to federal aid, payment hinges on equal financing by the cash-strapped German states and on approval of merger plans and capacity cutbacks by the shipyards.

Monday morning, shortly before 2,000 Weser workers chained the shipyard's gates shut from inside, he told them, "I can promise nothing."

CURRENCY RATES

Interbank exchange rates for Sept. 20, excluding bank service charges

| | \$ | £ | DM | FF | Y | Sc | Sw | N | DK | Sp | Gr |
|----------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| American | 2.077 | 0.16 | 1.712 | 1.712 | 0.16 | 1.712 | 0.16 | 1.712 | 0.16 | 1.712 | 0.16 |
| British | 0.625 | 1.00 | 0.625 | 0.625 | 1.00 | 0.625 | 0.625 | 1.00 | 0.625 | 0.625 | 0.625 |
| French | 0.167 | 0.167 | 1.00 | 1.00 | 0.167 | 1.00 | 1.00 | 0.167 | 1.00 | 1.00 | 0.167 |
| German | 0.625 | 0.625 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 0.625 | 1.00 | 1.00 | 0.625 |
| Japanese | 1.712 | 1.712 | 1.712 | 1.712 | 1.00 | 1.712 | 1.712 | 1.00 | 1.712 | 1.712 | 1.712 |
| Swedish | 0.167 | 0.167 | 0.167 | 0.167 | 0.167 | 1.00 | 0.167 | 0.167 | 1.00 | 0.167 | 0.167 |
| Spanish | 0.167 | 0.167 | 0.167 | 0.167 | 0.167 | 0.167 | 1.00 | 0.167 | 0.167 | 1.00 | 0.167 |
| Swiss | 0.167 | 0.167 | 0.167 | 0.167 | 0.167 | 0.167 | 0.167 | 1.00 | 0.167 | 0.167 | 0.167 |
| Yen | 1.712 | 1.712 | 1.712 | 1.712 | 1.00 | 1.712 | 1.712 | 1.00 | 1.712 | 1.712 | 1.712 |

Source: Reuters

1.00 U.S. dollar = 100 cents

1.00 British pound = 100 pence

1.00 German mark = 100 pfennigs

1.00 French franc = 100 centimes

1.00 Japanese yen = 100 sen

1.00 Swedish krona = 100 öre

1.00 Spanish peseta = 100 céntimos

1.00 Swiss franc = 100 centimes

1.00 Danish krone = 100 øre

1.00 Greek drachma = 100 lepta

1.00 Norwegian krone = 100 øre

1.00 Portuguese escudo = 100 réis

1.00 Italian lira = 100 centesimi

1.00 Dutch guilder = 100 cents

1.00 Belgian franc = 100 centimes

1.00 Luxembourg franc = 100 centimes

1.00 Austrian schilling = 100 Heller

1.00 Czech koruna = 100 haléřů

1.00 Hungarian forint = 100 fillér

1.00 Polish zloty = 100 groszy

1.00 Czechoslovak koruna = 100 haléřů

1.00 Slovak koruna = 100 haléřů

1.00 Yugoslav dinar = 100 para

1.00 Romanian leu = 100 bani

1.00 Bulgarian lev = 100 stotinki

1.00 Rumanian leu = 100 bani

1.00 Moldovan leu = 100 bani

GOLD PRICES

6 Ounce 1/10 - 1/100 - 1/1000 - 1/10000

1 Ounce 20 - 40 - 60 - 80 - 100 - 120 - 140 - 160 - 180 - 200

1 Ounce 20 - 40 - 60 - 80 - 100 - 120 - 140 - 160 - 180 - 200

1 Ounce 20 - 40 - 60 - 80 - 100 - 120 - 140 - 160 - 180 - 200

1 Ounce 20 - 40 - 60 - 80 - 100 - 120 - 140 - 160 - 180 - 200

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NYSE Most Actives

| Symbol | Vol. | High | Low | Close | Change |
|--------|-----------|--------|--------|--------|--------|
| IBM | 1,234,567 | 125.50 | 124.00 | 124.50 | +0.50 |
| AT&T | 987,654 | 45.20 | 44.80 | 45.00 | +0.20 |
| GE | 876,543 | 32.10 | 31.90 | 32.00 | +0.10 |
| AMT | 765,432 | 18.50 | 18.30 | 18.40 | +0.10 |
| MSFT | 654,321 | 28.70 | 28.50 | 28.60 | +0.10 |

Dow Jones Averages

| Index | Open | High | Low | Close | Change |
|----------------|----------|----------|----------|----------|--------|
| Industrial | 2,850.00 | 2,860.00 | 2,840.00 | 2,855.00 | +5.00 |
| Transportation | 1,200.00 | 1,210.00 | 1,190.00 | 1,205.00 | +5.00 |
| Utilities | 800.00 | 810.00 | 790.00 | 805.00 | +5.00 |

NYSE Index

| Index | High | Low | Close | Change |
|---------------------|----------|----------|----------|--------|
| NYSE Composite | 2,860.00 | 2,840.00 | 2,855.00 | +5.00 |
| NYSE Industrial | 1,210.00 | 1,190.00 | 1,205.00 | +5.00 |
| NYSE Transportation | 810.00 | 790.00 | 805.00 | +5.00 |

NYSE Closing

Vol. at 4 p.m. 103,650,000
Prev. 4 p.m. Vol. 95,430,000
Prev. Consolidated Close 93,750,000

Tables include the nationwide prices up to the closing on Wall Street

AMEX Diaries

| Index | High | Low | Close | Change |
|---------------------|----------|----------|----------|--------|
| AMEX Composite | 1,200.00 | 1,190.00 | 1,195.00 | +5.00 |
| AMEX Industrial | 600.00 | 590.00 | 595.00 | +5.00 |
| AMEX Transportation | 400.00 | 390.00 | 395.00 | +5.00 |

NASDAQ Index

| Index | High | Low | Close | Change |
|-----------------------|----------|----------|----------|--------|
| NASDAQ Composite | 1,200.00 | 1,190.00 | 1,195.00 | +5.00 |
| NASDAQ Industrial | 600.00 | 590.00 | 595.00 | +5.00 |
| NASDAQ Transportation | 400.00 | 390.00 | 395.00 | +5.00 |

AMEX Most Actives

| Symbol | Vol. | High | Low | Close | Change |
|-----------|-----------|--------|--------|--------|--------|
| AMEX IBM | 1,234,567 | 125.50 | 124.00 | 124.50 | +0.50 |
| AMEX AT&T | 987,654 | 45.20 | 44.80 | 45.00 | +0.20 |
| AMEX GE | 876,543 | 32.10 | 31.90 | 32.00 | +0.10 |

AMEX Stock Index

| Index | High | Low | Close | Change |
|---------------------|----------|----------|----------|--------|
| AMEX Composite | 1,200.00 | 1,190.00 | 1,195.00 | +5.00 |
| AMEX Industrial | 600.00 | 590.00 | 595.00 | +5.00 |
| AMEX Transportation | 400.00 | 390.00 | 395.00 | +5.00 |

| 12 Month High | | | | | | | | | | 12 Month Low | | | | | | | | | | 12 Month High | | | | | | | | | | 12 Month Low | | | | | | | | | | 12 Month High | | | | | | | | | | 12 Month Low | | | | | | | | | |
|---------------|------|------|----|---------------|--------------|-------|------|------|------|---------------|--------------|-------|------|------|------|---------------|--------------|-------|------|---------------|------|---------------|--------------|-------|------|------|------|---------------|--------------|--------------|------|------|------|---------------|--------------|------|------|------|------|---------------|-------|--|--|--|--|--|--|--|--|--------------|--|--|--|--|--|--|--|--|--|
| Stock | Div. | Yld. | PE | 12 Month High | 12 Month Low | Stock | Div. | Yld. | PE | 12 Month High | 12 Month Low | Stock | Div. | Yld. | PE | 12 Month High | 12 Month Low | Stock | Div. | Yld. | PE | 12 Month High | 12 Month Low | Stock | Div. | Yld. | PE | 12 Month High | 12 Month Low | Stock | Div. | Yld. | PE | 12 Month High | 12 Month Low | | | | | | | | | | | | | | | | | | | | | | | | |
| AAR | | | | 174.00 | 172.00 | IBM | 3.00 | 1.7% | 12.5 | 125.50 | 124.00 | IBM | 3.00 | 1.7% | 12.5 | 125.50 | 124.00 | IBM | 3.00 | 1.7% | 12.5 | 125.50 | 124.00 | IBM | 3.00 | 1.7% | 12.5 | 125.50 | 124.00 | IBM | 3.00 | 1.7% | 12.5 | 125.50 | 124.00 | | | | | | | | | | | | | | | | | | | | | | | | |
| AAI | | | | 45.20 | 44.80 | AT&T | 0.80 | 1.8% | 13.5 | 45.20 | 44.80 | AT&T | 0.80 | 1.8% | 13.5 | 45.20 | 44.80 | AT&T | 0.80 | 1.8% | 13.5 | 45.20 | 44.80 | AT&T | 0.80 | 1.8% | 13.5 | 45.20 | 44.80 | AT&T | 0.80 | 1.8% | 13.5 | 45.20 | 44.80 | AT&T | 0.80 | 1.8% | 13.5 | 45.20 | 44.80 | | | | | | | | | | | | | | | | | | |
| AAO | | | | 32.10 | 31.90 | GE | 0.40 | 1.2% | 11.5 | 32.10 | 31.90 | GE | 0.40 | 1.2% | 11.5 | 32.10 | 31.90 | GE | 0.40 | 1.2% | 11.5 | 32.10 | 31.90 | GE | 0.40 | 1.2% | 11.5 | 32.10 | 31.90 | GE | 0.40 | 1.2% | 11.5 | 32.10 | 31.90 | GE | 0.40 | 1.2% | 11.5 | 32.10 | 31.90 | | | | | | | | | | | | | | | | | | |
| AAU | | | | 18.50 | 18.30 | AMT | 0.20 | 1.1% | 10.5 | 18.50 | 18.30 | AMT | 0.20 | 1.1% | 10.5 | 18.50 | 18.30 | AMT | 0.20 | 1.1% | 10.5 | 18.50 | 18.30 | AMT | 0.20 | 1.1% | 10.5 | 18.50 | 18.30 | AMT | 0.20 | 1.1% | 10.5 | 18.50 | 18.30 | AMT | 0.20 | 1.1% | 10.5 | 18.50 | 18.30 | | | | | | | | | | | | | | | | | | |
| AAV | | | | 28.70 | 28.50 | MSFT | 0.50 | 1.7% | 16.5 | 28.70 | 28.50 | MSFT | 0.50 | 1.7% | 16.5 | 28.70 | 28.50 | MSFT | 0.50 | 1.7% | 16.5 | 28.70 | 28.50 | MSFT | 0.50 | 1.7% | 16.5 | 28.70 | 28.50 | MSFT | 0.50 | 1.7% | 16.5 | 28.70 | 28.50 | MSFT | 0.50 | 1.7% | 16.5 | 28.70 | 28.50 | | | | | | | | | | | | | | | | | | |

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6th Prize: US \$2,500

7th Prize: US \$1,000

8th Prize: US \$500

9th Prize: US \$250

10th Prize: US \$100

11th Prize: US \$50

12th Prize: US \$25

13th Prize: US \$10

14th Prize: US \$5

15th Prize: US \$2

16th Prize: US \$1

17th Prize: US \$0.50

18th Prize: US \$0.25

19th Prize: US \$0.10

20th Prize: US \$0.05

21st Prize: US \$0.02

22nd Prize: US \$0.01

23rd Prize: US \$0.005

24th Prize: US \$0.002

25th Prize: US \$0.001

26th Prize: US \$0.0005

27th Prize: US \$0.0002

28th Prize: US \$0.0001

29th Prize: US \$0.00005

30th Prize: US \$0.00002

31st Prize: US \$0.00001

32nd Prize: US \$0.000005

33rd Prize: US \$0.000002

34th Prize: US \$0.000001

35th Prize: US \$0.0000005

36th Prize: US \$0.0000002

37th Prize: US \$0.0000001

38th Prize: US \$0.00000005

39th Prize: US \$0.00000002

40th Prize: US \$0.00000001

41st Prize: US \$0.000000005

42nd Prize: US \$0.000000002

43rd Prize: US \$0.000000001

44th Prize: US \$0.0000000005

45th Prize: US \$0.0000000002

46th Prize: US \$0.0000000001

47th Prize: US \$0.00000000005

48th Prize: US \$0.00000000002

49th Prize: US \$0.00000000001

50th Prize: US \$0.000000000005

51st Prize: US \$0.000000000002

52nd Prize: US \$0.000000000001

53rd Prize: US \$0.0000000000005

54th Prize: US \$0.0000000000002

55th Prize: US \$0.0000000000001

56th Prize: US \$0.00000000000005

57th Prize: US \$0.00000000000002

58th Prize: US \$0.00000000000001

59th Prize: US \$0.000000000000005

60th Prize: US \$0.000000000000002

61st Prize: US \$0.000000000000001

62nd Prize: US \$0.0000000000000005

63rd Prize: US \$0.0000000000000002

64th Prize: US \$0.0000000000000001

65th Prize: US \$0.00000000000000005

66th Prize: US \$0.00000000000000002

67th Prize: US \$0.00000000000000001

68th Prize: US \$0.000000000000000005

69th Prize: US \$0.000000000000000002

70th Prize: US \$0.000000000000000001

71st Prize: US \$0.0000000000000000005

72nd Prize: US \$0.0000000000000000002

73rd Prize: US \$0.0000000000000000001

74th Prize: US \$0.00000000000000000005

75th Prize: US \$0.00000000000000000002

76th Prize: US \$0.00000000000000000001

77th Prize: US \$0.000000000000000000005

78th Prize: US \$0.000000000000000000002

79th Prize: US \$0.000000000000000000001

80th Prize: US \$0.0000000000000000000005

81st Prize: US \$0.0000000000000000000002

82nd Prize: US \$0.0000000000000000000001

83rd Prize: US \$0.00000000000000000000005

84th Prize: US \$0.00000000000000000000002

85th Prize: US \$0.00000000000000000000001

86th Prize: US \$0.000000000000000000000005

87th Prize: US \$0.000000000000000000000002

88th Prize: US \$0.000000000000000000000001

89th Prize: US \$0.0000000000000000000000005

90th Prize: US \$0.0000000000000000000000002

91st Prize: US \$0.0000000000000000000000001

92nd Prize: US \$0.00000000000000000000000005

93rd Prize: US \$0.00000000000000000000000002

94th Prize: US \$0.00000000000000000000000001

95th Prize: US \$0.000000000000000000000000005

96th Prize: US \$0.000000000000000000000000002

97th Prize: US \$0.000000000000000000000000001

98th Prize: US \$0.0000000000000000000000000005

99th Prize: US \$0.0000000000000000000000000002

100th Prize: US \$0.0000000000000000000000000001

